MARUTI SUZUKI

Way of Life!

Q3FY20 & 9 MFY20
Investor Conference Call

January 28, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Maruti Suzuki India Limited Q3 and 9 months FY20 earnings conference call.

As a reminder, all the participants' 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 call, please signal an operator by pressing '*' then '0' on your touch-tone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Nikhil Vyas. Thank you and over to you, sir.

Nikhil Vyas: 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; Executive Director, Marketing & Sales – Mr. Shashank Srivastava; Executive Director, Finance – Mr. D D Goyal; Executive Vice-President, Finance – Mr. Pradeep Garg; Executive Vice-President, Corporate Planning & Government Affairs – 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 statements that have 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: Good afternoon ladies and gentlemen. This is an exceptional year for the auto industry. Due to weak demand environment, H1 witnessed a significant drop in sales volumes, both for the passenger vehicle industry and the company as well. In Q3, the festive season helped improve the consumer sentiments. The improved sentiment supported by higher spends on sales promotions led to better sales on both wholesale and retail front for the company. The retail sales were very much improved during the quarter which led to very lean network inventory by the end of the quarter. Moreover, the company was able to reduce the stock levels of BS-IV models significantly. S-presso which was launched in festive season also created excitement in the market and the model featured in India's top 10 best-selling cars within a month of its launch.

I am happy to share that customers have received BS-VI technology well. In no time, the company would sell over 5 lakh BS-VI vehicles in the market. As you would be aware, the company had also progressively initiated the transition to BS-VI norms well ahead of timelines. Now, eleven of our top selling models are compliant with BS-VI norms. This will help the company and the stakeholders navigate the transition to BS-VI in an orderly manner.

With regard to diesel engine segment during the quarter, for the first time in the last 15 years, the diesel penetration for the industry fell below 30% indicating declining popularity for diesel as a fuel. For the company, the shift towards petrol segment was even more evident with petrol segment contributing to 80% of the sales during the quarter.

On the demand front, especially with regard to rural economy, the first estimate indicating a strong rabi crop sowing is very encouraging. If the weather remains favorable, we would witness a healthy harvest of rabi crop in April/May, thus augmenting rural income and possibly improve demand.

With regard to operations, the sequential improvement in sales volume at 29% aided in better capacity utilization leading to improved profitability during the quarter.

As an environmental-friendly measure with an aim to promote recycling and support in resource optimization and conservation, the company along with Toyota Tsusho Group announced setting up one of its kind vehicle dismantling and recycling joint venture in Noida, Uttar Pradesh, within 2020-21.

Let us see the financial highlights of the company's performance in Q3 now. The company sold a total of 4,37,361 vehicles during the quarter, higher by 2% compared to the same period previous year. Sales in the domestic market stood at 4,13,698 units, higher by 2%. Exports were at 23,663 units. During the quarter, the company registered net sales of Rs. 1,96,491 million, higher by 3.8% compared to the same period previous year. Net profit for the quarter stood at Rs. 15,648 million, higher by 5.1% compared to the same period previous year on account of cost reduction efforts, lower operating expenses, lower commodity prices, and reduction in corporate tax rate; partially offset by higher sales promotion expenses, higher depreciation, and lower fair value gains on invested surplus.

We can now take your questions, feedback, and any other observations that you may have.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We will wait for a moment while the question queue assembles.

We will take the first question from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: My first question pertains to the result-focused numbers on discount per car and also what was your sourcing from Gujarat this quarter, sir?

Ajay Seth: Sourcing from Gujarat this quarter was at 1,16,718 units. And our discounts were at Rs. 33,000 compared to Rs. 24,000 same period last year.

Pramod Kumar: So, sir, your Gujarat sourcing cost seems to have come down given the number of cars you have sourced this quarter. What explains the gross margin slippage? I understand the discount bit is slightly higher but your RM to sales seems to have come under tremendous pressure because other line items have kind of done reasonably okay but your raw material to sales or the gross margin inversely has actually come out very weak. If you can just throw some light on what happened there in addition to the discounting?

Ajay Seth: Are you looking at sequential reduction or you are looking at the same period last year results?

Pramod Kumar: If you look at it, both ways I think we were at similar raw material to sales both in 3Q of last year and 2Q of this year, 71.4 or 71.2. That has slipped by 130 bps or so on a sequential basis over the December quarter.

Ajay Seth: Let me try and explain this to you. We have always said that given the fact that we have now the Gujarat plant and there are certain elements of cost which goes in the material cost because when you are producing more quantity in Gujarat, there will be always some element of overheads that will get clubbed, regrouped in the material cost. So, it will not be a like-to-like comparison. So, better thing to look at is the EBIT margins rather than looking at the material cost to net sales ratio or other ratios.

But to answer your question, if you were to look at Q3 this year versus Q3 last year, almost 1.6% of SMG overheads and royalty has got incrementally clubbed in this year compared to last year. That's one reason. Of course, there are plenty of other reasons like sales promotion going up by almost 1.4% and as we had mentioned to you even last time that when we had passed on the impact of BS-VI and safety norms, the cost was exactly passed on. There was no margin which was added on, and therefore, arithmetically, there will always be a negative impact of that in the ratios. And the cost reduction efforts that we took and commodity reduction that we saw between quarter 3 of last year to quarter 3 now is about 1.7%, but again I would reiterate that you should look at the EBIT numbers that will give you a more meaningful sense of margins because some of these are regrouped numbers because of the Suzuki Gujarat's production where you not only add material cost but you also add overheads and royalties.

Pramod Kumar: Final question on the inventory situation for you at the end of the quarter and how should one read the discounts? Because this is by far the highest discount what we have seen in the recorded history for Maruti. How should one look at that number going forward, sir?

Shashank Srivastava: At the end of the quarter, i.e., end of December, the stock was around 52,000 units which is about 9 days of inventory.

Pramod Kumar: Shashank, would that be a driving factor for you to kind of even take up prices and rebuild on the wholesale inventory because BS-VI has practically become a nonevent for you barring the diesel phase-out? Is that a fair thing to say that discounts should trend down materially from these levels?

Shashank Srivastava: Yes, they have already trended down as you may have observed in January and that's the trend actually across the industry. If you look at some of our models where we have decreased discount levels by Rs. 5000 to Rs. 7000 and in fact excess of Rs. 17,000 for some of the models.

Pramod Kumar: And what's your read on the current demand environment post record December retails? As in, how are the activity levels in terms of inquiry, walk-ins, and conversions as per the way you see it?

Shashank Srivastava: January if you look at, the petrol car inquiries are high, but the diesel inquiries are down roughly about 2% or so.

Moderator: We will take the next question from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: Continuing on the demand environment, are we seeing any sense of pickup in the rural market given the positivity around rural?

Shashank Srivastava: Yes, that's true. In fact, if you look at the quarter-to-quarter performance, then while rural has been negative as also urban – both of them are negative – but the rural is less negative, and in fact if you look at Q3, the rural positive is higher than the urban positive. So, there seems to be some uptick in demand. The field people they inform us, that the sentiment is much better. Thanks to good sowing of rabi and probably a bumper crop which is expected sometime in April. For Maruti Suzuki, our share of rural sales is now about 38% which has gone up over the previous years.

Jinesh Gandhi: Are you seeing any indications about pre-buying on the diesel front given that at least in the foreseeable future, we are not getting into diesel?

Shashank Srivastava: As I said, this is the last month for production of diesel vehicles for us and we don't have much stock as we sort of liquidated our stock much ahead. Actually, as I told you, the stock out of the 52,000 units end of quarter, diesel was only 8700 units. We sell roughly about 27,000 on an average, diesel, per month, so that's like already limited stock. So, even if there is pre-buying, then we wouldn't have stopped, so there cannot be any pre-buying.

Jinesh Gandhi: Second question pertains to the financing environment. Are we seeing any improvement in financing rejection rates which had gone up materially in 1st half? Is it coming down?

Shashank Srivastava: Yes, a little bit. In fact, that's also because some of the banks have reduced interest rates, as you would have observed. Like in December, SBI reduced the rates 10 basis points. Actually, if you look at the beginning of the year, it was 8.45%, gone down to 7.90%, HDFC from 8.70% to 8.15%, so also for Axis Bank as also ICICI. I think there has been some reduction and also the rejection rates have come down definitely. That is reflected also in the penetration levels for retail which has also climbed up a little bit. If you look at December, it's 79.1% against 77.7% last year.

Jinesh Gandhi: How would be the rejection rates, if you can quantify that?

Shashank Srivastava: It's very difficult to quantify because, as you know, this data is not available formally. Or even informally, there is no way we can collect this data. This is based entirely on consumer perception, perception of our dealerships, and also what the banks tell us.

Jinesh Gandhi: Lastly, in terms of the price increase which you have taken in 3Q and yesterday's announcement, what would be the average price increases?

Shashank Srivastava: Actually, it ranges. So, I don't know whether the average will give you a good this thing, but just for your information, the average increase for Alto and Celerio – these are the lower-end hatches – is roughly around 6000 to 7000. Swift is 5000. There is no increase in Dzire or Eeco.

Jinesh Gandhi: Sir, lastly, export revenue number, if you can share?

Rahul Bharti: Exports is about INR 1144 crores.

Moderator: We will take the next question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Firstly, I wanted to check on diesel. Particularly, we have seen some aggressively priced 1.3 liter segment cars from your competition. What do you think about that? Do you think that there can be some loss of volumes if competition remains aggressive? And how can it be addressed?

Shashank Srivastava: We have done a rough, you can say, theoretical sort of assessment, but also based on what we see the previous year's movement of diesel versus petrol. If you look at, let's say, 2012-13, the petrol was 42% and 58% was diesel. At that time, the price difference between per liter of fuel of gasoline and diesel was about Rs. 31 in Delhi. So that has been coming down. As you know, now the diesel-petrol price difference in Delhi is Rs. 6. In fact, there are some states where diesel becomes more expensive than petrol, like in Orissa or Jharkhand or Goa and Gujarat and some of the other large states. So, I think in response to that, and also there is some sense in the consumers that diesel is probably a more dirty fuel and probably doesn't have that support from the ecosystem, and that's the reason why we have seen 58% of diesel in 2012 coming down to less than 30% last month as our CFO just mentioned. I think going forward, this trend will continue and there are reasons for it because the prices are going to be probably closer. Secondly, while there are a couple of models which have been priced aggressively, and I think you referred to some of our close competitors. But overall, I think when you look at Tata or you look at Toyota, they have all increased prices substantially for diesel. So, there would be a reduction of the diesel percentage.

Also, because I think this is a quite a common question which probably many people would have in mind, the passenger car today, while we say 29% is the share of diesel in December, actually in the passenger cars segment, it is only 13%. In vans, it is 12%. In SUV, it is 68%. The SUV segment which seems to be largely and, that too, I think, the premium and the mid-SUV segment which seems to be largely diesel. We have a little bit of changes there. As you know, Brezza and S-Cross will no longer be produced in diesel. They are only diesel vehicle production. So, we will now be producing only petrol BS-VI vehicles starting from next month. I think that should push up the percentage of petrol in SUV segment as well.

We have news that Hector as well as Creta and Venue, they're also selling larger numbers in petrol now. So, I think going forward, we will have a trend and this trend should continue. If you do a rough calculation, as most analysts do, if our market share is 50.1% today, out of which about 40.2% comes from petrol and about 9.5% to 9.9% comes from diesel. But going forward, should this 70% of the petrol segment become close to as per our calculations and per what I just said, it could be anywhere between 80% to 85%, in which case, we should be able to maintain our market share.

Kapil Singh: A couple of questions on the financials. Firstly, I wanted to check that depreciation has seen a sharp drop compared to what you were seeing in Q1 and Q2. And secondly, on the commodities, what kind of increase should we expect? Because we heard that in this quarter, there was a sharp drop in steel prices. So, some color there.

Ajay Seth: The decrease in depreciation is due to the fact that we had taken accelerated depreciation for diesel plants in the 1st and the 2nd quarter. That's almost over. A fraction of that came in this quarter. Therefore, you see that drop in depreciation. That was the answer to the first question. What was the second question?

Kapil Singh: What is the sustainable depreciation rate that you would be having after this legal thing is fully amortized?

Ajay Seth: This quarter we had an impact of about 44 crores. That 44 crores should also go away in the 4th quarter and then it gets normalized. So, whatever depreciation gets added on account of the new capitalization that we are doing in this period will get added on and this will get eliminated. So, you should not see much rise in depreciation, at least in the 4th quarter. What was the other question you had?

Kapil Singh: On the commodities, just some color because we heard that steel prices have seen a sharp drop. And then we have seen precious metals going up. So, what is the outlook there?

Ajay Seth: Kapil, we are pretty happy that in the second half of this year, the commodities have dropped quite a bit. But this is a kind of a short-lived pleasure because commodities are actually showing a U-turn. We were given to understand that steel has started rising, and therefore, we will end up giving some increase in the 1st quarter of next year in steel. The bigger pain is the precious metal where both rhodium and palladium have shown significant increase. Although their quantum may not be very large, but the impact is pretty severe because they have almost doubled from the levels they were last year. So, I think commodities is not a good news for the next year.

Kapil Singh: The price increase covers that or how are you thinking about that?

Pradeep Garg: I think it covers part of the input cost. Remember, we were selling BS-VI vehicles from April onwards, as was mentioned by Seth sir also. One thing which I must add just as an additional information is that since we have introduced BS-VI already, our new price increases are a little bit less compared to the competitors and that should also give us a more competitive edge going forward in the petrol segment.

Moderator: We will take the next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: I just had a follow-up on this commodity thing which you mentioned. The increases that you are seeing right now, with how much lag do you see the benefit will start to reverse?

Ajay Seth: We have already negotiated for commodities; for the 4th quarter, we are more or less covered. So, we don't see impact coming in, in the 4th quarter. But in the 1st quarter of next year, we will start seeing the reversal because both steel and precious metals that I mentioned have shown an uptick.

Gunjan Prithyani: On the gross margin, is it possible for you to break up from Q2 to Q3? Because if I look at the discounting, there has clearly been a 200 basis point spike there that has an impact on the margin. But it had offset from commodity and some of the mix impact. Is it possible for you to break that up and just give us some sense of the movement in the margins, please?

Ajay Seth: One thing I mentioned earlier also was that the fact that you have to take the SMG volumes into account, and SMG volume will also have certain provision of royalty and overheads whatever is incremental. That overshadows the actual ratio, but just to give you the reconciliation between Q2 and Q3, the difference between Q2 and Q3 is about 1.5%. The material cost to net sales is actually showing an increase of 1.5% of which a small portion, 0.2%, is on account of the overheads and royalty of SMG; it is not very large, but 1.1% is on account of sales promotion. There is a cost reduction and commodity cost reduction as well of about 60 basis points. However, there's a very peculiar thing that happens normally in 3rd quarter of the fixed cost incidents. What happens is that if your level of inventory in the factory comes down significantly, between the 2 quarters, you will see a large impact of the fixed cost. So, about 1% is that impact of fixed cost which is not permanent. I mean, it normally comes in the 3rd quarter and then it goes away and then it becomes normal. That's one reason. So, broadly, exception is 1% and the other reason that I mentioned to you is sales promotion partially offset with cost reduction in commodities.

Gunjan Prithyani: What was the royalty rate this quarter?

Ajay Seth: Royalty is at 5.4%, all put together including SMG as well as MSIL and Maruti alone is at 3.8%.

Gunjan Prithyani: And 40% of this would be INR or it will be....

Ajay Seth: We are about half of INR and half of yen.

Gunjan Prithyani: And just one question I had on this diesel thing. Of course, we've also said that we are open to relooking at this when we see where the customer is positioned. If the customer is still looking at diesel, then we may reassess our strategy. Now two things here. Firstly, are we flexible to reassess our strategy in lower engine segment? Or is it only for 1.5 above? And secondly, if you decide to pursue this, what is the kind of timelines that you could take to come back in the diesel segment?

Shashank Srivastava: As I mentioned earlier, for the smaller segment, actually the diesel percentage is extremely small, and it is going to get smaller. It is just 1% in the small hatch. It is about 11% in the Baleno and Swift category. And going forward, with the RDE norms coming in a little later, there should not be any scope, currently also, as I just said, it is just between 5% to 11%. So, we will look at the demand going forward, which we believe, if at all some consumers for reasons of getting a higher torque or for some other reasons of having large travel in big vehicles, as I said, only SUVs have seemed to have a large percentage of diesel, then we will look at it to make an assessment and take a look at whether we can develop BS-VI diesels in the future. However, for the time line part, I am really not aware of the exact time line.

Gunjan Prithyani: And CAPEX, if you can share the guidance for this year and next year, if possible, and what we've done in the 9 months?

Ajay Seth: We are on track. We estimate to spend about 4000 crores this year of CAPEX, slightly under 4000 crores. And so far, we have spent about 2500 crores of CAPEX.

Gunjan Prithyani: And any guidance for next year?

Ajay Seth: No, we are still working on finalizing our budget. So, we will let you know once we do that.

Moderator: We will take the next question from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Sir, my first question is on Other Operating Income. We have seen a very sharp jump, be it sequentially or on YOY basis. Can you just indicate what exactly it is and how should we look at this line item, Other Operating Income?

Pradeep Garg: This is primarily on account of uniform ex-showroom prices. The freight recovery, we earlier used to net it off in the Other Expenditure against the freight expenses. Now, that is not permitted as per Ind-AS. So, the freight recoveries are reflected in Other Operating Revenues. And year on year if I were to give you a comparison of these figures, in quarter 3 of this year, this freight recovery is 545 crores, whereas quarter 3 of last year, it was 248 crores, and they were shown in Other Operating Revenues. The expenditure is sitting in Other Expenditures whereas the recovery part is coming in Other Operating Income.

Chirag Shah: So, it is not exactly linked to the volumes, but it is also linked to which state you are sending it across and that causes volatility in this?

Pradeep Garg: Whenever we are introducing the new model we are moving to this ex-showroom prices, gradually you will see this figure going up as we introduce a new model we move to this uniform ex-showroom price.

Chirag Shah: **S**econd question was, just to understand the True Value part of business that we have, can you indicate what kind of volume growth we are seeing over there at the dealer level? And also some color on the type of customer in terms of what kind of age profile they are looking to buy vehicles. Are they looking to older vehicles, say, beyond 5 years? If you can share some color on the True Value part of the business. I know it's not an income-generating business for us and more of a support business from dealer, but if you can share some insight over there.

Shashank Srivastava: I will just make a fine distinction between True Value business and pre-owned car business. Not all pre-owned car business is True Value.

There would be a growth of around 5% in this period, April to December, for pre-owned car business.

The exchange penetration percentage is also increased. It's now more than 26.4%. That's an increase of about 3%. As far as the average age and profile is concerned, the average age has actually remained similar, around 7 to 8 years. And of course, partly one of the reasons is that what we purchase under True Value sale, there is a strict condition as to the number of years' of cars that we can purchase.

Chirag Shah: Is that part of business can see a significant growth? Because some dealers were indicating that now they are clubbing the True Value sales and the new sales as a business opportunity for themselves from the same location.

Shashank Srivastava: We have True Value outlets of course, separate outlets as well. And also, of course, at the point of sale, especially for exchange cases, people do make inquiries about used cars as well, and also dealer tries to sell the exchange. Therefore, it's a selling of new car in exchange of an old car. Not only in the showroom but in the workshop as well. I think that part is what is exciting, and most dealers are looking forward to increase the penetration in the pre-owned car business.

Chirag Shah: And one last thing on Other Income, if you can help me understand. I presume this quarter, there is definitely a negative mark-to-market which has affected us. Is it possible to quantify to understand what is the normalized or annualized yield that we should assume?

Ajay Seth: No, there is no negative mark-to-market. Mark-to-markets were certainly much higher in the earlier quarters. This quarter, there is still a positive mark-to-market but much less than what it was in the 2nd quarter. And therefore, to that extent, the Other Income is lower.

You know what our surplus investments are on an average, and the yields today in the market is anywhere between 6.5% to 7%. So, returns will be in that vicinity of 6.5% to 7%, depending on the surplus that we carry.

Chirag Shah: From the taxation perspective, we still have this benefit of tax rate?

Ajay Seth: Yes, it's still efficient because the normal tax rate is about 25%, and this comes to anywhere between 12% to 15% depending on indexation.

Moderator: We take the next question from the line of Joseph George from IIFL. Please go ahead.

Joseph George: Just wanted a clarification. Did you mention that the impact on margins because of the lower production in this quarter compared to sales was about 100 bps?

Ajay Seth: Yes, that's right.

Joseph George: I'm looking for the mix of replacement sales versus first-time buyers in your sales mix this year compared to same time last year.

Shashank Srivastava: It hasn't really substantially changed. First-time buyers are – of course, across the models, it is different – between 47% to 49%. The replacement buying has actually come down a little bit. It is in that range of 23% to 25%. And the rest is additional buying.

Joseph George: You are saying on a year-on-year basis, it hasn't moved much, right?

Shashank Srivastava: I'm sorry, additional car buying has come down a little bit and the replacement which is the exchange of cars gone up a little bit.

Joseph George: Just wanted a clarification. I think this topic has been touched upon in the past. When you calculate discount per car, which is a 33,000 number that you gave for the quarter, the denominator here is wholesale volumes and the numerator is the total discounts on the entire retail. Is that right? And to that extent, it is overstated in 3Q because retails are higher than wholesale. Just wanted to get that concept.

Ajay Seth: It's like a running cycle. Every time, in a quarter where retails are higher, this will speak up. And there are certain quarters where wholesales are much higher than retail. So, you will find it much lower. You have to look at year's average to get a more meaningful number because this will carry on. So, if you're looking at 1 quarter, you look at what the average of 9 months is or 1 year is and you'll get a more meaningful number.

Joseph George: So, conceptually, would it be right to say that this quarter's margins have been negatively impacted because of higher discounts? Would that be a right assumption?

Ajay Seth: Obviously, one of the reasons is much higher discount this quarter. If discounts were at the normal levels, margins would have been higher by another 180 or 130 or 140 basis points.

Joseph George: So basically, the differential between wholesale and retail would have impacted margins, right? To the extent?

Ajay Seth: Right. In this quarter, yes.

Moderator: We will take the next question from the line of Ronak Sarda from Systematix Shares. Please go ahead.

Ronak Sarda: Sir, just first a clarification. You said this would be the last month for diesel production. So, no more production in Feb or Feb would be the last month?

Shashank Srivastava: Yes, this is the last month of production.

Ronak Sarda: If you can just highlight your new launch plans, what could we expect from Maruti over the next, say, 6 to 12 months. To add to this point, Kia Seltos' almost 50% of volumes are in petrol. Does this give us some encouragement to launch a bigger sized SUV?

Shashank Srivastava: Of course, on the product front, it's difficult for me to give you forward guidance. However, for the near future, we have indicated the models which we'll be launching, which is the Brezza petrol BS-VI. This is the first time we are coming with the Brezza petrol. Also, the S-Cross petrol. S-Cross also, as you know, was only in diesel. And we will also have a launch of the Ignis in the next month.

Ronak Sarda: And the related question on the large SUVs?

Shashank Srivastava: As I said, forward guidance is difficult for me to give.

Ronak Sarda: Sir, it would be difficult to highlight what kind of volume growth you are looking for next year, but should we assume that the decline is behind us and we should end in the positive territory? Or does the diesel ramp down hurt us in FY21 as well? What would be the initial estimates from your side?

Shashank Srivastava: You are looking for the industry estimates or Maruti Suzuki?

Ronak Sarda: Industry and Maruti, both for FY21.

Shashank Srivastava: For industry, I'll be more forthcoming. For the industry, I think, generally, we had that SIAM session where there was this discussion. The economists have indicated that it would be roughly between 3% to 5%, the increase. And the industry has indicated around a similar figure, although a higher figure for the SUV segment and a lower figure for the passenger car segment.

Moderator: We will take the next question from the line of Sahil Kedia from Bank of America. Please go ahead.

Sahil Kedia: I have two questions. Firstly, on the Other Expenses, you mentioned that the royalty number is 5.4% and, for Maruti, it is 3.8%. When we look at our Other Expenditure that you have, that will reflect the 5.4% or the 3.8%?

Ajay Seth: 3.8% because the balance 1.6% that I mentioned to you would get reflected in the material costs.

Sahil Kedia: Okay, that is what I wanted to check. Secondly, when we move to BS-VI, you've historically shared localization levels, etc., and that has been a key area of focus in the past to drive raw material costs lower. Is it fair to say that the localization levels on the BS-VI for some parts may be actually lower, which then may be an area to work for in terms of margin improvement next year? Or is the localization levels of BS-VI comparable to BS-IV?

Management: Yes, mostly comparable BS-VI to BS-IV. A large chunk of the cost that has gone up is in the precious metal in the catalyst.

Sahil Kedia: Sir, could you give us a little bit of color in terms of what your localization levels would be this year at an average? And if you've actually managed to change that localization at all on a year-on-year basis. I'm not looking from a quarter perspective, more from a full year number.

Rahul Bharti: If we talk about only Maruti, we are at about 96% localization, which means 4% import. If we include vendor imports, we would be close to 87% local, 13% import.

Sahil Kedia: And how would this has changed on a year-on-year basis?

Rahul Bharti: Over a period of time, I think we've improved that 13%.

Sahil Kedia: Sir, this quarter's tax rate of 22%. Should that be something that would now be a normalized tax rate to expect for the company?

Ajay Seth: Yes, that's correct.

Moderator: We will take the next question from the line of Raghu Nandan from Emkay Global. Please go ahead.

Raghu Nandan: Firstly, on realizations, there is a drop of about 5% to 6% QOQ. Apart from the discounts and lower proportion, would mix be the major reason for the reduction in the realization?

Ajay Seth: That's right, there are two reasons. One, as you rightly pointed out, discount, and the second is mix. As the diesel proportion is going down as a percentage and also I think the sales of lower-end models are more than some of the other bigger models, to that extent the realizations' ASPs have been affected. So, a part of it is discounts and the remaining part is mixed.

Raghu Nandan: Another question was, discounts have reduced in January, and price increases have been aggressive yesterday. In few models like Alto, Celerio, and Ignis, the price increases have been on the higher side. Does the demand situation give confidence for these price increases? Any outlook you can share for FY21?

Shashank Srivastava: For the volumes?

Raghu Nandan: For volumes, sir.

Shashank Srivastava: I just indicated the industry sort of expectations. I would, of course, expect our petrol volumes to grow up significantly. As you know, our market share in petrol segment is close to 60%. With the petrol new launches which we are doing in Brezza and S-Cross and also the more competitive pricing position we have now with regard to BS-VI pricing by the competitors, I think our volumes for petrol should go up significantly.

Raghu Nandan: Can you share any update on the plans of strengthening dealership network? Any update on purchase of land parcels and leasing them out to dealers?

Shashank Srivastava: Not really, because we are consolidating. Of course, as you may be aware that we have increased our network this year as well. In fact, if you look at our network increase this year – I'll just give you the numbers as well – we have added, for example, now, our total number of Arena is 2700, which is a net addition of about 81 in this year. In fact, net of this thing so we have added about 86 outlets already. We have an aggressive plan going forward. As you know, our long-term assessment for the market is, we are quite bullish on India for the long-term market and we are planning our network accordingly.

Raghu Nandan: Next, QOQ, sir?

Shashank Srivastava: I don't have that data immediately, but I think I can give you the exact number a little later while we continue with the conversation.

Raghu Nandan: Can you share the retails for the quarter?

Shashank Srivastava: For Q3, our retail figure is 5,01,200 units.

Moderator: Ladies and gentlemen, that was the last question for today. On behalf of Maruti Suzuki India Limited, that concludes this conference. Thank you all for joining. You may now disconnect your lines.