MARUTI SUZUKI

Q3 FY22 – Investor Conference Call

January 25, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY'22 Earnings Conference Call of Maruti Suzuki India Limited. 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 conclude. Should you need assistance during the conference call, 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. Pranav Ambaprasad. Thank you. And over to you, sir.

Pranav Ambaprasad: Thank you, Margaret. 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; from Marketing and Sales, we have Member, Executive Board -- Mr. R.S. Kalsi; Senior Executive Director, Marketing and Sales -- Mr. Shashank Srivastava; from Corporate, Executive Director, Corporate Planning and Government Affairs -- Mr. Rahul Bharti; General Manager, Corporate Strategy and Investor Relations -- Mr. Nikhil Vyas; from Finance, we have Executive Director -- Mr. Pradeep Garg; Executive Advisor – Mr. D.D Goyal, and Executive Vice President -- Mr. Sanjay Mathur.

The conference call will begin with a brief statement on the performance and outlook of 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 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: Thanks Pranav,

Good afternoon Ladies and Gentlemen,

I hope you and your families are healthy and safe.

The 3rd wave of COVID is posing challenges for the country at large. We are following all government protocols and taking all precautionary steps in the best interest of employee's health and safety including that of our value chain partners.

Let me start with some highlights of our product offerings and our company initiatives.

We exported 205,450 vehicles in Calendar year 2021. It is the highest ever exports in any calendar year by the company.

In the calendar year 2021, 8 of the 10 best-selling passenger vehicles were from Maruti Suzuki. We are deeply grateful to our customers for choosing Maruti Suzuki as their most preferred passenger vehicle brand.

One of the notable aspects in quarter 3 was the launch of the India's most fuel-efficient petrol car, "All-New Celerio". We are witnessing a good initial response. The new Celerio has a fuel efficiency of 26.68 km/liter and its CNG variant has a mileage of 35.60 km/kg.

Maruti Suzuki Baleno is the fastest selling premium hatchback car to cross a million-unit sales.

Maruti Suzuki Super Carry, the country's most powerful mini-truck has recently achieved the record milestone of 100,000 unit of cumulative sales in just 5 years of its launch.

Maruti Suzuki's state-of-the-art online car financing solution has received a phenomenal customer response. Maruti Suzuki Smart Finance platform has disbursed cumulative INR 65,000 million auto loans to over 1 lakh customers within 9 months of its launch.

Taking a step towards circular economy, Maruti Suzuki and Toyota Tsusho Group's Vehicle Scrapping and Recycling unit commenced operations. The facility offers hassle-free, end-to-end solution for customers to scrap vehicles in a safe and environment friendly way with a capacity to scrap and recycle over 24,000 vehicles annually.

Continuing on the path to promote the culture of safe and responsible driving in the country, Institute of Driving and Traffic Research (IDTR) was inaugurated in Chhattisgarh. This is the 8th IDTR in the country managed under our CSR program.

Coming to the business environment that prevailed during the 3rd quarter, the Company continued to experience shortage of electronic components, especially during the quarter marked with festive period, when the demand for cars usually remains good.

An estimated 90,000 vehicles could not be produced during the 3rd quarter owing to the global shortage of electronics components mostly corresponding to the domestic models. Though still unpredictable, the electronics supply situation is improving gradually. The Company hopes to increase production in Q4, though it would not reach full capacity.

The enquiry, bookings and retail sales in 3rd quarter has shown an improvement sequentially. Enablers such as finance availability and interest rates continue to remain favourable.

On cost side, the commodity prices increased significantly over the course of last one year and has been the most adverse factor impacting the net profit. The Company made maximum efforts to absorb input cost increases offsetting them through cost reduction and passed on a minimal impact to customers by way of car price increase.

Overall, during the 3rd Quarter, adverse commodity prices, lower volumes and lower non-operating income compared to that of same period previous year have adversely impacted the profit performance.

Coming to financial results:

Highlights: Q3 (October-December), FY 2021-22

The Company sold a total of 430,668 units during the Quarter, lower than 495,897 units in the same period, previous year. In the domestic market, the sales stood at 365,673 units in the Quarter, against 467,369 units in Q3 FY21.

In the quarter, the Company clocked its highest ever exports at 64,995 units as compared to 28,528 units in Q3 FY21. This was also 66% higher than the previous peak exports in any Q3.

During the Q3 FY 2021-22, the Company registered Net Sales of INR 221,876 million compared to that of INR 222,367 million in the same period previous year.

The Net Profit in this quarter came down to INR 10,113 million compared to INR 19,414 million in the same period previous year.

Highlights: 9M (April-December), FY 2021-22

The total vehicle sales during the nine month period (Apr-Dec'21) were at 1,163,823 units. This includes domestic market sales of 993,901 units and exports of 169,922 units. In the corresponding period previous year, the Company registered a sale of 965,626 units comprising 905,015 units in domestic market and 60,611 units in the export market.

During this period (9M FY 2021-22), the Company logged a Net Sales of INR 582,841 million compared to INR 436,035 million in the same period previous year.

In this period (9M FY 2021-22), the Company made a Net Profit of INR 19,274 million as against INR 30,636 million in the same period previous year.

We are now ready to take your questions, feedback and any other observations that you may have. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: I have two questions. First is on the market share side and second one is on hybrid. So on market share, just wanted to understand whether we still kind of hold that 50% market share threshold which Suzuki has put out in the medium term plan and even for 2030, so does the market share target still holds good for us given the market share slippage what we've seen in the last couple of years?

Shashank Srivastava: So if you look at the figure for December, the market share for wholesale was 48.3% and for retail it was 49.9%, very close to the 50% mark. However, if you look at the cumulative figures so far for the year, the market share is just around 44%. So, I think judging by that, it does appear that while December market share is close to 50%, but cumulatively it might be difficult to reach that 50% at the end of the year given the current production scenario. However, in the years forward, I think it's still quite feasible for us to target 50% market share, and that's what we plan to do.

Pramod Kumar: The reason why I ask that is there are meaningful portfolio gaps in the smaller SUVs and the midsize SUV and other categories. Given that you are pretty confident that 50% is quite feasible in the next year itself, probably the entire launch pipeline may not be active. So with all the portfolio gaps getting filled, is there a possibility that we could even breach the 50% mark in the medium term?

Shashank Srivastava: Pramod, if you look at our market share up till December for hatches, it is 67%. If you look at the passenger cars, it is 62.5%. If you see the MPVs where we have the XL6 and the Ertiga competing against Innova, Triber, etc., it is 64% and for the vans it is 95.6%. So obviously in all these segments market share being above 65% or thereabouts. It's the SUV space which has pulled us down. As we said while the entry SUV which is 50% of the SUV market, we are the market leader, because we have the Brezza. And yes, we have a weakness in the mid SUV segment currently. And we hope to address it going forward by expanding our portfolio in this very critical category.

Pramod Kumar: The general understanding is that SUVs command higher margins than other categories, given the pricing differential was equally taxed, is the industry notion generally right in India as well?

Shashank Srivastava: I don't know the cost structure for other companies, but generally that may not be true for any particular segment. The pricing also depends on the competitive scenario, which we see in the industry today.

Pramod Kumar: Second one is on hybrid. Is there anything which you would like to share at this point of time, because given the plans what as a company or organization are kind of quite committed to the technology despite lack of government fiscal support, so in that sense, just want to understand what is the use case for the consumer you see with hybrid which is giving you that kind of confidence to kind of still pursue that technology while practically everyone else outside of Toyota and Suzuki is pivoting towards EVs in a big way even in the short to medium term, so if you can just help us understand the thinking, and the rationale behind that that will be very helpful?

Rahul Bharti: While one will be focusing on all technologies, including EV, including hybrids and others also that we have not discussed at the moment. However, given the high upfront cost of batteries and the limited charging infrastructure network in the country, we do think that at least for the medium term hybrids will be a very powerful solution, they are scalable, they do about 40% of the job of an EV in terms of CO_2 reduction, in terms of energy efficiency, but they're probably 100 times scalable. So in the medium term, they will be a good option. And of course EVs also have to be pursued for the long term. So all options have to be worked upon.

Pramod Kumar: Any timeline as to when do you view the technology in the Indian market?

Rahul Bharti: Let's keep the excitement.

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

Amyn Pirani: My question was mainly on the raw material side. This quarter, we have seen a sequential decline in raw material sales and even on a raw material per vehicle basis, the costs have come down. So, can you help us understand as to any particular commodity that has helped or has there been any reset in the steel or aluminum contract with the supplier?

Ajay Seth: So, there has been a marginal improvement in commodities compared to the second quarter especially the precious metals have seen a decline compared to where they were in Q2. Although steel has shown some rise in Q3 as well, but we are now hopeful that moving forward we will see some correction in the steel prices as well as the precious metals will remain at the levels where they are. So some impact of commodity reduction has come in Q3. And we expect some more to come in Q4 if the steel prices come down which we have witnessed in the month of January. So that's the trend on commodities at this point in time.

Amyn Pirani: Can you remind us as to how often do your steel contract is revised, is it like six months because while they fell in December quarter, global steel prices are again up, so what's the lead and lag here?

Ajay Seth: We generally do it for half year, but sometimes depending on the market volatility, we can do it for shorter periods as well.

Amyn Pirani: One more thing on the currency. Can you remind us what is your yen exposure as we stand today because obviously royalty is now fully in rupees?

Ajay Seth: Our direct exposure is now reduced to about approximately JPY30 billion.

Amyn Pirani: From the vendor side, like you used to mention as a percentage of revenues, you know to what extent??

Ajay Seth: There we have exposure of about JPY50 billion thereabouts.

Amyn Pirani: Okay, so JPY30 billion direct plus JPY50 billion indirect?

Ajay Seth: That's right. This is only the yen exposure, there will be some exposure, which is also on the dollar imports and the euro imports, which is not counted in the yen exposure but they will not be as large. The exposure is about €68 million in our case direct and €90 million in case of vendors and similarly there will be some exposure on the dollar side also.

Amyn Pirani: And that would be an offset on the export side, exports is mostly dollars?

Ajay Seth: So now we have a significant natural hedge because exports have gone up quite a bit. So on the direct side, we have virtually a surplus on dollars; however if we include indirect, then of course, we have a bit of a deficit dollars because Yen also has two legs, it's dollar yen and dollar rupee. So to that extent, we have a reasonably good natural hedging now.

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

Kapil Singh: My first question is on demand. If you could share the outlook for industry growth for FY'23? And I would also like some perspective on the medium-term growth, I mean, beyond FY'11 whichever way you slice or dice the data industry hasn't really grown much, it's not even been a 5% CAGR even, whichever period we're choosing if we take 2012 to 18 or thereabout. So once this base effects go through, let's say next year, what is the kind of medium term CAGR you're looking at? And why has it been below potential? Also, if you can add some perspective on the regulatory cost. We've also heard about draft regulation on 6 air bags becoming mandatory .

Shashank Srivastava: The CAGR as you said has been declining if you take the recent periods, you're right. But it's not as if you slice and dice it at any time period. It's 5% or less. For example, if you take the last five years is 6.2%, last 10 years 8.1%, last 17 years 9.8%. So, of course, it has come down in recent years and I think we discussed this. In 2019-20, the market come down to about 18% it was largely on account of the cost of acquisition, which was because of the conversion, which happened because of many factors including the regulatory requirements of BS-IV to BS-VI and safety requirements. So, it is that which had prevented the growth in '19-20. However, if you look at the future, which is the second part of your question, I think we can reasonably look at CAGR growth in line with the economy, which would be roughly 7% to 8%.

Kapil Singh: The second question was on the order book, we mentioned that it's around 240,000 plus kind of order book. And in October also we have mentioned, it's more than 250,000. So, could you give some perspective on whether the order inflows have been affected because of supply shortages also, because there's no growth in order book despite the production shortages we have?

Shashank Srivastava: So, actually, the pending bookings are the figure you are quoting, 240,000 as of 1st of January and currently, 264,000. Month-on-month, if you see the booking inflow is pretty steady. For Maruti Suzuki, I can give the rough figures of around maybe about 6,000 bookings on an average per day, little bit less in January so far. But the buildup of pending bookings happens because you don't have enough vehicles to retail. That's what we are witnessing. But if you want an answer to whether there has been a shortfall in the booking inflow, the answer is no, there has been no sharp fall in bookings.

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

Gunjan Prithyani: The first question is on the news flow around this airbag regulation and also we do have the next set of CAFE norms. So, could you just help us understand how much will this translate in terms of cost and at what stage this regulation is?

Rahul Bharti: So, the CAFE norms, I hope we are aware that Maruti is in a best position in terms of CO_2 footprint, whether on an absolute scale or a relative scale. And so, we are already meeting the norm which is supposed to come from April. The second is on the airbag issue. We are in discussions with the Ministry of Road Transport. It's not just a cost, it's the feasibility also. And once we have a discussion, we'll be in a better position to share the result.

Gunjan Prithyani: The other question I had was on the supply side. Just trying to understand how much improvement do we expect from where we were in the month of December? And also you mentioned in the release that we will not reach our full capacity in Q4 as well. So, I just wanted to clarify when you look at this full capacity, do you include the line-III of Gujarat as well?

Rahul Bharti: So our full capacity is approximately 5.5 lakhs per quarter or about 22 lakhs per annum. And while there is steady improvement in the supply situation, we still may not be able to reach full capacity because of electronic components. And of course, the general disclaimer holds true. It's always unpredictable. So we never know what may happen in this area. It's a global problem.

Gunjan Prithyani: Okay, but the December run rate seem to be sustaining still, there hasn't been any deterioration to that, right?

Rahul Bharti: We are better in Q4 than we were in Q3.

Gunjan Prithyani: If you could just share the royalty, discount and retail volume numbers for this quarter?

Ajay Seth: Royalty in this quarter was at 3.6% and the discounts were at INR 15,200 in this quarter.

Shashank Srivastava: Q3 retail was 392,171 passenger vehicles plus if you include Super carry, then it is 403,970.

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

Raghunandan NL: My first question is on CNG vehicles, can you share the volume number and market share for Q3? And can you talk about future potential for CNG penetration as increasing share of CNG in product mix should be market share accretive for the company?

Shashank Srivastava: CNG volumes for April-December period so far are just around 150,000. We hope to close the financial year around 235,000- 237,000 range. Last year, the similar figure was 160,000 and the previous year it was 106,000. The penetration of CNG for Maruti Suzuki is now slightly above 15%. And for the eight models in which CNG is there, the penetration is ,30%. Going forward, we do expect CNG to continue to find traction. And for the next year also we think there is going to be a good growth in CNG, judging by the order inflow, pending bookings and also the fact that the CNG network is expanding rapidly across the country and the fuel prices at the pumps continue to be high for gasoline and diesel.

Raghunandan NL: My second question is company is targeting to fill white spaces ahead and some of the new products would be in collaboration with Toyota. In a scenario where the product is jointly developed, would both OEMs launch the product at the same time or Maruti get the opportunity to launch the product first? I was trying to understand whether bulk of the new model volume go towards the OEM who launches the product first.

Rahul Bharti: So this is a very conscious well thought-out strategy where we look at our commercial benefits and the opportunity of sale in the market and then we time it accordingly. So we'll get immense benefit from this alliance and the timing and the strategies thereof.

Raghunandan NL: Lastly, can you share the CAPEX spends on a YTD basis and full year plan for FY'22, and would it be possible to share the plan for FY'23 as well?

Ajay Seth: So, we have spent so far INR2,233 crores till December and plan for the full year is a little upwards of INR5,500 crores and we are on target in terms of the plan for the year. So there is estimated expenditure of about INR 3,000 to be incurred in the next three months.

Raghunandan NL: Broadly, can you indicate the breakup, sir?

Ajay Seth: I don't have the exact breakout with me. But this is divided among the new models, R&D expenditure, and facilities in the existing capacities that we have, and also the additional land purchase, etc., that we will do as part of our capital expenditure.

Moderator: The next question is from the line of Pramod Amte from InCred Capital. Please go ahead.

Pramod Amthe: This is with regard to new product launches. It seems because of the semiconductor challenges some of them got delayed to come through for FY'22 pipeline. In that context, how are you looking at your planned launches for the remaining products -- do you still maintain the timeline on a yearly launches, are you deferring the medium term launch plans considering that you need to maintain some gap and momentum to be built upon new launches?

Shashank Srivastava: It's not probably correct to say that the launch plan itself has been affected by the semiconductor shortage, it is generally not true. And we do not foresee, going forward we will change our launch plan based on the semiconductor issue.

Pramod Amthe: Second one is with regard to exports. Considering that this year we have seen a sharp jump. Wanted to know what is your medium term plan in terms of taking exports as a proportion of the sales? And also want to get your thoughts on you have also applied for auto PLI? How does that fit in the overall scheme of things?

Rahul Bharti: So we were able to clock the highest ever exports in this calendar year. And the good part is that from a demand perspective, it seems sustainable. So we've gone into expansion of products, expansion of the network, expansion of the number of markets where we are present and all have helped. It seems sustainable in the medium term, so far, barring any surprises that may come about. And the second question was on PLI. So, companies have applied for the PLI. And of course, God is in the details, so there are lots of conditions, lots of thresholds and other parameters that will determine the total incentives to each company across each product. So, the good part is that many companies have applied and to that extent, there will be increased localization and increased production in those technologies, the list of (AAT) Advanced Automotive Technologies.

Pramod Amthe: Specific to you, yours is more focused on exports for PLI application because localization will come through for vendors?

Rahul Bharti: The earlier format of the PLI scheme seemed to be towards encouraging exports, but now the latest version in which form it came was about import substitution or localization. So it's about localization. It is neutral across exports and domestic sales.

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

Aditya Makharia: Just a follow on question with Toyota joint development. So there is a lot of news about FY'23 being the big year for Maruti because you will launch two to three SUVs. Now, I know directionally you will not comment on exact models, but can we expect something quite sizable coming into next year?

Shashank Srivastava: So as I explained, yes, we have plans to further strengthen our portfolio in different segments, including the ones where we are currently weak. So you can expect a good strengthening of the portfolio in the coming years.

Aditya Makharia: You did mention that the chip shortage is now gradually easing. So is it totally gone now and are we going to be working at that 2.2 million annualized run rate if demand is there?

Shashank Srivastava: So if you see the chip shortage, I think Rahul san explained a little bit. We have been experiencing gradual improvement in the supply position. And even one small correction is not with respect to the capacity that we speak of, it is with respect to the production plan which we have. So in September, we were just around 40% of our plan, in October, that's around 60%, in November, we were around 83%, 85%, in December, we were just around 90%. So, the situation in that sense is improving. However, it is still not 100% as you can see, and we are hopeful in January, Feb and March, we will continue to see this improvement hopefully to be above that 90% mark. But as we have mentioned in our press release, we may not reach 100%. When we will reach 100% is actually not clear at the moment because we cannot take a definitive view on that because it's a very complex supply chain, which is involving not just Maruti Suzuki but all OEMs in India and not just India, but across the globe.

Aditya Makharia: Just the last question on market share, because you have lost market share in the first six months due to chip shortage. Now we see Hyundai is really on the back foot on that count. Will that also enable us now to catch up on where we actually should be at the 50% mark?

Shashank Srivastava: I did mention if we look at the segment wise market share, I gave the figures for passenger cars it is 63%, for vans it is 96%, for MPV it is 64% and without the SUVs, we are around 65% of the market share. So, I don't know whether the chip shortage for other OEMs is going to help us or not. Obviously they're looking at our performance and hopefully like in December our retail market share was close to 50%. We will try to maintain that mark going forward.

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

Jinesh Gandhi: My first question is the data on exports? What was the Gujarat production?

Rahul Bharti: Export realization was at INR3,343 crores. Gujarat production in the quarter was approximately 142,500 cars.

Jinesh Gandhi: Second question pertains to the depreciation in this quarter. It seems like come off quite a bit. Is there any-one off in this or this is the new level of depreciation because capacity addition has been done at Gujarat plant?

Ajay Seth: Depreciation that you see is related to MSIL depreciation and the other line item of SMG comes under the lease expenses separately. To the extent, the assets have already lived their life, the depreciation of those assets would finish in that period. So, it is related. So, if you look at both SMG's depreciation and our depreciation together, it is almost similar as it was last year, about the same number that you see, INR1,060 crores in Q3 last year and INR1,064 crores now, not different, and even as a percentage of sales it is at 4.8% in both these quarters.

Jinesh Gandhi: So, MSIL depreciation will be around this quarterly run rate of INR640, 650 crores in that range as against 750 crores in second quarter?

Ajay Seth: Yeah, that's correct.

Jinesh Gandhi: And the third question is with respect to other income. So, we have seen consistent drop in other income because of increase in GSec yields. What should be the sustainable level of other income as GSec yields maybe at around 6.5%, 6.6%, should we go back to INR500-550 crores a quarter or it should be lower than this?

Ajay Seth: We have done two things to derisk. One is that we have shortened our tenures. Earlier we used to be between two to three years of papers. Now we are down to one year paper so that the risk is minimized given the fact that interest rates are rising. So we are on a shorter tenure. And last year, we had significant mark-to-market gains because the interest rates were going down and we were on two to three-year papers, therefore the gains were significant. This year we have on a contrary small mark-to-market losses. Average returns on a one year yield are now between 4.5% to 5% depending on where the markets are. So effectively, all this cash surplus that we carry you should see an income of anywhere between 450 or thereabouts every quarter.

Jinesh Gandhi: Any roughly FOREX gains in this quarter?

Ajay Seth: Not much movement in foreign exchange. When we compare the two quarters, there is an improvement in this quarter by about INR 50 crores on the direct imports, so that's reflected in the material cost. Other than that, there is no significant change in foreign exchange.

Moderator: The next question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: My first question is on the commodity inflation side. So, how much of it is still under-recovered for us? And in a scenario that commodity prices remain flat in quarters ahead, will we be passing this on gradually to customers?

Ajay Seth: We have been taking series of actions internally with respect to the unprecedented commodity increase. We have worked very hard to reduce our cost. We have also been working hard to do the cost reduction exercises on the material side rigorously. There have been price increases that we have taken over the last one year to offset the increase, although it's always a painful decision to take frequent price increases, given the cost of ownership continues to go up, and as Shashank san mentioned that one of the reasons of drop in industry '19-20 was the cost of ownership going up. But given the increase unprecedented commodity we have taken price increase actions. And the last one we took was in January, where we have increased our prices. The impact of that will be visible to you in the fourth quarter. Discounts fortunately in this quarter have been much lower compared to last year, also because of the shortage of cars. So I think all these factors will play out in terms of how commodity prices will be mitigated.

Kumar Rakesh: How much was the under-recovery on the commodity side?

Ajay Seth: Commodities have gone up on a last year average basis by about 10%. So we've done quite a bit of price correction. There have been lower discounts in this quarter. And the impact of that is seen in this quarter as the operating margins have gone up. But the balance impact you will see in the next quarter.

Kumar Rakesh: My next question was about the market share. A lot of discussion has happened on this call and outside as well. Mr. Srivastava also said that white spaces is one of the areas in which we can potentially work especially in SUV space to get back the overall market share. So why don't we disclose the model launch plan? And not specifically models, but at least quantify that the number of new launches which we are planning to do this year or for a longer duration of time, say five years, like many of our competitors locally and globally also do this, so can we get some indication about the model launch plan not by disclosing any specific model per se?

Shashank Srivastava: So I have mentioned that we have always had a very strong product plan and a portfolio of vehicles and we will continue to do that and I indicated the areas. The reason why we don't mention it specifically is because we operate in all segments. if you have a full model change in a particular model, you would expect the current sales also to be affected. It doesn't help actually, and that's the reason why as a policy we do not disclose the models that we'll be launching in the future, especially we don't make any specific reference to new models.

Kumar Rakesh: I was referring to just quantify the number of models you plan to launch without disclosing specifically which?

Shashank Srivastava: This question which will always be there because new models mean what. There are new brands for which you have an absolutely no background or no past history or you could have a full model change which we call FMC or you could have a minor model changes which we call MMC. Which to consider? Maybe if we give information, it might be misunderstood and actually the market may be misguided rather than being guided.

Kumar Rakesh: One final question on the CAPEX side. So this year's CAPEX is at a higher level compared to our recent trend partly because we are going to make land purchases this year. So is that trend likely to continue in FY'23 as well or this land purchase related additional CAPEX was one off?

Ajay Seth: So, we are now working out our plans for the next financial year. So this is the exercise of preparing budgets and then depending on the requirement in the plants between the Manesar and Gurgaon, and the new model launches, we will decide and then we'll communicate to you in terms of what the next year plans are.

Moderator: The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: If you look at the commentary coming in from a lot of companies, such as two wheeler companies, tractors or recently FMCG companies, there's a buzz that there is a lot of weakness in the rural markets, and we are seeing that in two wheeler sales, tractor sales etc., So what are the things that you're seeing in the rural market and historically rural isn't growing faster for you compared to urban, but if you can update us on trends there especially in the context of what other companies are saying?

Shashank Srivastava: So, in our case, rural markets still continue to have a strong run. And if you see that, the percentage of sales in the rural areas actually gone up a little bit in this year. So from around 41%, 41.5% it has just shot up to 43%. So, it does indicate the rural markets are still robust and going strong. And I think there are reasons for it also which we have been stating. The kharif crop has been record, you have had good monsoons back-to-back, the rabi sowing this year so far has been very good, and MSPs have actually gone up. So, we consider that as a good sign for rural growth to continue. And by the way, tractor industry also if you look at the calendar year, it has actually grown on the back of record growth last year. We expect the rural to continue to show strength.

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

Ronak Sarda: Just a clarification first. What was the average price hike which we took in January?

Shashank Srivastava: The weighted average is 1.7%

Ronak Sarda: While there is a gap when we talk about medium or large SUV, but when we talk about a compact SUV, let's say in and around Vitara Brezza range, we are in a way targeting the customers who are buying a compact or a premium hatchback. So, how do you balance the equation between market share and profitability because that segment is highly competitive? As you mentioned in a question earlier, the profitability will depend on a lot of different factors and SUVs are not inherently profitable. So how do we balance out equation? And what are your thoughts on the new launches in that category?

Shashank Srivastava: So I think individually we have to look at model-by-model. And what I had referred earlier to some question which was raised, the profitability obviously depends on the segment you are operating in, the competitiveness of the segment, the number of models in the segment, our own cost structure and the cost structure in the industry. So, it's a mix, which not necessarily you can actually differentiate based on an entry SUV or a premium hatch or a mid hatch, etc., By the way, most competitive also in terms of the number of models is the SUV segment. There are about 45 models which compete in the SUV space as against hatches there are only 19. So obviously, there are pluses and minuses. And we have to look at model wise rather than looking at some overall profitability segment-by-segment.

Ronak Sarda: A final clarification, when we say the order book of around 250,000, how much of this would be CNG?

Shashank Srivastava: So at the current 264,000, which is the total booking, CNG is 117,000.

Rahul Bharti: May I just explain what Shashank san just mentioned about profitability and market share. What he is essentially saying is we don't accept the trade off so easily and so early. I think the best thing that pushes the trade-off far away is excellent products. So if you have excellent products, you will not face a situation where you have to choose the lesser of two evils, either volume loss or profitability loss. I'll give you an example. Celerio has a fuel efficiency of 26.68 km/lt. It's much higher than its nearest competitor. The CNG version has a fuel efficiency of 35.6 kilometres per Kg. Fuel efficiencies in the zone of 30s is unheard of in India. It's only Maruti who's present in the 30-plus kilometer per Kg club. Similarly, a higher network. If we have a higher volume, we can sell more numbers of the same model as compared to our competition. So these are the methods by which we push this trade-off away. We don't accept that there is a trade-off so easily between profitability and market share.

Moderator: The next question is from the line of Nitij Mangal from Jefferies. Please go ahead.

Nitij Mangal: What are the plans for capacity expansion at Gujarat, what will make you comfortable or confident to go for the next rounds?

Rahul Bharti: In Gujarat, the third line is already operational and we have the option of two shifts also. So with that, our total capacity is 2.2 million per annum. And a little bit of productivity stretch is always possible.

Nitij Mangal: I was just thinking so let's say to start the next line today, it will probably take another two, two and a half years. So let's say in the next few years when do you think you'll have to start that expansion?

Rahul Bharti: This is where our productivity stretch helps always and in the past also, whenever marketing has required, production has always risen to the occasion and they have been able to deliver. And this stretch also improves our operational leverage and our profitability. So we keep doing that all the time across cycles.

Nitij Mangal: My second question is on exports. We have seen a very good decent volumes over there. Last time also you mentioned that there's something which would be sustainable, you talked about

Toyota network, etc., But let's think of exports two, three years out from here, what is the potential in those markets?

Rahul Bharti: I mentioned about the three-pronged strategy, more number of products, more markets and more density of the network within those markets, so, they have generated good dividends and it is sustainable at least in the medium-term. We have to keep in mind that global markets do have a sense of unpredictability and surprises, sometimes some country develops some protectionist measure, and some economy goes up or comes down. So, we will go along the way and we would like to keep increasing our exports.

Moderator: The next question is from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: My first question is on market share. Now, if you look at the SUV segment in particular, nearly 35%, 40% of volumes at an industry level, it's actually diesel. In that backdrop, how do we see our market share in SUV even with the new launches? Is CNG a viable option within the SUV space at all or do you think things will not work in that?

Shashank Srivastava: As I explained, Maruti's market share without the SUV is 65%. So, obviously that is an area of interest for us if we have to maintain an overall market share, 50% or thereabout. Talking about the diesel penetration, the diesel penetration currently in industry is around 18%. But if you look at segment wise, it's quite different. And you're right, passenger cars just around 2% and vans around 4%. If you see the SUV space, there the entry level SUV is only about 20%. It is actually in the mid-SUV that you see some traction, in diesel around 58% or thereabouts. But remember before the Brezza came with that K-15 petrol engine, the diesel share of even entry SUV was about 88%, 89% just a couple of years back. So in a couple of years, 88% diesel actually became just around 20% in the entry SUV. And we would expect that going forward, if we have some really good products in the mid-SUV which are petrol, then also you could expect the sharp fall in the diesel percentage in the mid-SUV space as well. In the SUV space, the diesel share is roughly about 37% which used to be about 95% three, four years back. So it has rapidly come down from about 95% to 37% and even more rapidly in the entry SUV segment. So if you see some play in the mid-SUV segment for a good petrol SUV, then you might find the same story being repeated there as well.

Ashish Jain: Is CNG an option in SUV?

Shashank Srivastava: Of course, CNG is an option in SUV as well.

Ashish Jain: My second question is on the airbags and all. Can you give a sense of what will be the cost implications and all if the regulation goes through?

Rahul Bharti: As of now we are not getting too much into the costs. There's an implication of semiconductors, there is implication only time of delivery. So it is a comprehensive topic in itself. We are in discussion with MoRTH and at an appropriate time we'll share the findings.

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