



“Maruti Suzuki Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Maruti Suzuki Q1 FY12 Results Conference Call hosted by Fortune Equity Brokers. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Mahantesh Sabarad from Fortune Equity Brokers. Thank you and over to you sir.

Mahantesh Sabarad: Good afternoon everyone. On behalf of Fortune Equity Brokers, I, Mahantesh Sabarad, welcome you all to the post Q1 result conference call of Maruti Suzuki India Ltd. We have pleasure of having Mr. Ajay Seth, CFO and his team with us from Maruti Suzuki to discuss the results with you. I now request Mr. Vivek Kumar from Maruti Suzuki to introduce the team and provide the results highlights. Over to you, Vivek.

Vivek Kumar Good afternoon Ladies and gentlemen, may I introduce you to the management team from Maruti Suzuki today. We have with us our CFO, Mr. Ajay Seth; Chief General Manager Finance, Mr. Pradeep Garg; General Manager Corporate, Mr. K.D. Singh; Head of Corporate Planning, Mr. Rahul Bharati, and team members from finance. The call will begin with a brief statement on the performance and outlook of our business. After which, we will be happy to receive your questions. May I remind you of the safe harbor, we may be making some forward looking statements. They have to be understood in conjunction with the uncertainty and the risk that the company faces. I may also like to inform you, that the call is being recorded and the transcript will be available at our website. I would now like to invite our CFO. Mr. Seth. Over to you sir.

Ajay Seth Thank you Vivek. I would like to first briefly take you through our business and financial performance for the quarter ended 30th June 2011. After a stupendous growth in the last two years, the auto industry witnessed some challenging times.

A number of factors combined together and impacted the customer cycle. The Petrol prices on unprecedented level of speed and steepness of increase, interest rate hike also hurt consumer sentiment. Though our marketing efforts have generated a healthy growth in enquiries, customers have been postponing their purchase decisions and these enquiries were slow to convert to sales. In exports, volume declined by 24% as sales to European markets dropped to 33% of the total exports. In the quarter, we could achieve broadly 30,000 units as compared to 40,000 in the same period last year. We also had an unfortunate incident of an illegal strike at our Manesar plant, because of which we lost production of over 10 days, largely of orders with good market demand. The production operations are normal now, but we will definitely introspect and assimilate our learnings for the future.

We faced increase on account of commodities like steel, aluminium and rubber. The Yen appreciates significantly in the quarter as compared to the same period last year. The external environment was challenging from both volumes and margins perspective. We tried to differentiate volume by higher customer contact and reinforcing Maruti Suzuki's reversed total cost of

ownership. We tried to offset margin pressures of commodities and foreign exchange by efforts in cost reduction and calibrated price increases.

We believe adversity has helped us improve the intrinsic health of our business. With this, the company registered a quarterly net sales of Rs. 83,199 million, a growth of 3.3% over Q1 last year. The net profit after tax stood at 5,492 million, a growth of 20% over the same period last year.

I would now share with you our outlook for the rest of the current financial year. The market condition continues to be sluggish. You may be aware a few hours back, the RBI hiked interest rates by 50 basis points, this will have an impact on the consumer sentiment. We expect the festive season starting with Rakshabandhan, Onam, Ganesh Chaturthi, and Navratra to act as a positive trigger for our sales. Commodities are expected to be stable for sometime, while on foreign exchange, the uncertainty always remains. We have strong product refreshment in the pipeline and we would like to ensure our customer with exciting models. Our capacity expansion with the second plant at Manesar is on schedule and we expect it to start generating higher numbers from September.

As I mentioned before, the DNA of the company is not to mull over factors in the external environment be on our control. We would rather concentrate on efforts inside like reaching out to our customers more, improving our products even if we are doing well, generating more efficiencies and cost reduction, communicating to all stakeholders more and surpass ourselves in all aspects of our business. With this thought, I would like to invite questions or feedback from our investors and analysts. Thank you.

Moderator: Thank you. The first question is from the line of Vinay Singh from Morgan Stanley. Please go ahead.

Vinay Singh: I had two questions, one on the top line, your ASPs have expanded on a sequential basis, could you give us the key reason for that? And secondly, on your other expenses, now we see a sequential dip in other expenses, both in terms of royalty and in terms of sales and distribution expense. If you could throw some light on your Yen contract, is royalty down because of Yen? And lastly on discounting during the quarter, how that played up?

Ajay Seth: I would like to first address the question that you raised on the Yen contracts. The position with the Yen contracts is that for the first quarter, we were fully hedged. We are also hedged for the second quarter, but thereafter we have an open position on the Yen contracts. So to that extent, there is a vulnerability to the current Yen rates and therefore that would get reflected in Q3 and Q4 of this year. Having said that, we also have on the other side, a bit of a positive, where the Euro contracts are in the money, because Euro last year around the same time was weak and now Euro has appreciated considerably, so that is giving us a bit of positive. So net-net, we still have a net position of Yen because imports are somewhat larger than exports. So there will be some pressure in Q2, Q3, and Q4 on that account, but that pressure to an extent, we had mitigated with the contracts that we have on exports, which are at a rate much better than the rate that we have in the similar period last year. On the discounts question, the discounts in this quarter have been higher

than the discounts last year same quarter about Rs. 1200 approximately. However they are much lower than the discounts that were there in Q4, if you were to look at sequentially. So I think given the tough market environment, we have done a reasonable job of maintaining discounts at a moderate level. And as you know, market was heavily discounting at this point in time. The other expenses more or less the volumes have not grown significantly, so we have tried to control expenses all across and it will see in most of the areas, our expenses are aligned to what they were last year on the same volumes. So while there were inflationary pressures, but what we have done is we have tried to work out where we could control cost and we try to contain our cost on all fronts. And therefore you actually see a decline from Q4 to Q1, if we were to look at overheads.

Vinay Singh Sir, on the discounts like, how are the discounts this quarter like for the month of July, have they been inching up from Q1?

Ajay Seth: In the opening remarks also we mentioned that discounts are likely to look up, market sentiments down at this point in time, there have been a series of interest rate hikes and in the past fuel prices have gone up. So therefore the consumer sentiment is down, therefore it is likely to be an increase in discounts as we move forward.

Vinay Singh And sir, lastly on the ASP expansion?

Ajay Seth: ASP expansion, the realizations you are talking about?

Vinay Singh Yes sir, on a sequential basis.

Ajay Seth: ASP expansion is largely on account of the mix. So the diesel proportion is going up, so therefore you see that the realizations therefore are moving up.

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

Kapil Singh Sir, my question just follows up on the previous question on diesel cars, what is the production capacity that we have for diesel cars now and where will it expand to? Secondly, related to that, are we putting in place a strategy to sort of have more diesel variants or given the fact that, there is a significant increase in price substantial between petrol and diesel?

Rahul Bharati: The diesel capacity as of now is somewhere around 2.5 lacs per annum annualized and we expect it to go up to about 2.9 lacs or so. And diesel variants are already present in a number of models, we have it in SX4 ,the Swift, the DZire, the Ritz. So I think that's a good percentage. Now we only have to increase the numbers.

Kapil Singh Okay, but we are not looking to have more models with diesel variants?

Rahul Bharati: We have to have a careful balancing in our product portfolio where multiple fuel options have to be considered as part of an overall strategy. So we have gasoline, we have diesel, we have CNG across variant options and various models. So I think at the moment this is it.

- Kapil Singh:** What is the increase that we have seen in penetration of alternate fuel vehicles like CNG etc.?
- Management:** CNG has seen an increase of about 50% after the petrol deregulation and the diesel variant percentage of that particular model has gone above from about 60 to 80 plus.
- Kapil Singh:** And CNG would be what percentage?
- Rahul Bharati:** See the problem is CNG, it is available in a very limited number of locations, so it's basically in Delhi, Mumbai, and Gujarat, wherever the CNG variant is present in that particular location, the penetration generally is 20%-25%-30% of that model sales.
- Kapil Singh:** The second question relates to CapEx, now we are looking to do about 4000 crores of CapEx this year. So how much of that will get reflected in the gross block by the end of the year and how much will come into CWIP?
- Ajay Seth:** I think bulk of it is going to get reflected in the gross block, but there would be expenditure like the R&D which is ongoing, which will only get reflected once the test track is completed. So the estimate would be that about two-third of this will reflected in the gross block and one third would get carried forward as capital work in progress.
- Kapil Singh:** Right, and sir what is the increase in R&D expenditure we are looking at from last year to this year.
- Ajay Seth:** R&D expenditure this year was 0.7% of the net sales, if they are put both revenue and capital in this quarter, 0.7%. And the last year average was 1.1, but then this is not an indication because R&D as we go along would go up, so we will have to see every quarter as to what the percentage is.
- Moderator:** Thank you. The next question is from the line of Rashi Talwar from Demeter Advisors. Please go ahead.
- Rashi Talwar:** Hello sir, question from my side more on the localization program that you all are running with your vendors and also at your own end, because you know Yen, all of us have been speculating has been extremely strong and should come off, but hasn't come off. So what is the alternative plan in terms of localization from our vendors and where do expect to reach probably at the end of this year and next year?
- Rahul Bharati:** About 15% of our net sales is our indirect exposure to imports, which is our vendor imports and we plan to reduce it by about 2%-3% every year and we are on course to achieve it.
- Rashi Talwar:** So 2%-3% this year and 2%-3% more in the coming year?
- Rahul Bharati:** Yes in the next financial year.
- Rashi Talwar:** So basically by the end of the next financial year, if you do 3%, it should be down to about 9% to somewhere between 11%-9%.

- Rahul Bharati:** We are 3%, we would have done about 6% reduction in the import content of vendors.
- Rashi Talwar:** Yeah so, balance will be 9% is what I heard.
- Rahul Bharati:** Yes.
- Moderator:** Thank you. The next question is from the line of Sumanta Khan from ICICI Prudential. Please go ahead.
- Sumanta Khan:** I just wanted to know, this increase in diesel cars production capacity, is it already increased or by when can we see that happening?
- Rahul Bharati:** Within about two months or so.
- Sumanta Khan:** And we have seen a few ads on the news, so any idea, you can show some color on what's been the initial response of the new Swift?
- KD Singh:** The response has been very positive on the new swift. We are looking at almost about 30,000 orders already on the new swift. So as we go along, it's going to be launched sometime next month, so we expect it to be fairly positive, yeah.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Ltd. Please go ahead.
- Jinesh Gandhi:** My question is on your RM cost, would it be fair to say that this quarter has seen a bulk of RM cost push based on current trends?
- Ajay Seth:** We are having most of the increases have been factored in this quarter and the outlook is that moving forward, that is in the second quarter, we don't see any increase in the material cost. So, material cost we believe should remain flat as whatever contracts we have and whatever commodity hedging etc., that we have done. So, we don't see much movement as far as the commodity prices are concerned for the second quarter.
- Jinesh Gandhi:** And secondly in terms of any price increases which we plan to take, not in current quarter, but in 3Q or so?
- Ajay Seth:** The first important question is that, it has to be a demand kicker. We are looking at a market which is slowing down. There are so many adversities in the market at the given point in time. So all these are, at the moment, backburners, what is important is first to create that demand kicker and get moving. Those are things that if required would be looked at separately, but I think as we have always said our first endeavor is always to work on a cost and productivity program and not look at increasing prices, if we can achieve that through our internal efficiencies. So the priority at this point in time would be to ensure as festival season comes in, that the demand bounces back.

- Jinesh Gandhi:** And roughly can you throw light on your CapEx plan zone next couple of years. We know about Manesar where we will be spending, where you have to disclosed your spend, but had plans beyond that?
- Ajay Seth:** This year, we will be spending about 4000 crores on CapEx, largely on account of capacity and R&D as well as marketing infrastructure. Next year, our plan is about 3000 crores. This is what I can give you, information I can provide you at this point in time, but broadly this will cover our major projects going forward.
- Jinesh Gandhi:** Okay sir, next year 3000 crores would be again some portion would be on Manesar, but where balance would be going?
- Ajay Seth:** It will be on new models, it will be on marketing infrastructure, it will be on R&D, so there will be series of things that would be happening.
- Jinesh Gandhi** And this doesn't factor in for new diesel engine plant?
- Ajay Seth:** So that diesel engine plant is out of a separate company, so that investment would be done by the separate company. Suzuki Powertrain India Ltd. will do that investment if required.
- Jinesh Gandhi:** Yeah but we will need to pump in funds in that for that?
- Ajay Seth:** There is an equity participation of 70-30, but they have their own program to borrow money etc., so they manage their own debt equity and capital structure.
- Jinesh Gandhi:** And any thoughts on setting up a new diesel engine plant, now considering our very strong demand for diesel cars, are we looking to expand beyond 2.9 lakhs vehicles?
- Ajay Seth:** So that's something that Suzuki Powertrain will examine and see what is requirement and therefore what should be the capacity. So at this point in time, we will be 2.9, but beyond that they would be working there with marketing in terms of what the demand is and therefore what the requirement would be.
- Jinesh Gandhi:** And last clarification on this, your hedges, you mentioned you are hedged entirely for 2Q, that would be your direct import switch would have been hedged, right, vendor imports still be opened.
- Ajay Seth:** Yeah that is right, vendor imports is opened and that's the area of pain for us.
- Moderator:** Thank you. The next question is from the line of Pramod Kumar from JM Financial. Please go ahead.
- Pramod Kumar:** My question pertains to the current quarter performance in terms of as you mentioned that the ASPs were higher because the mix was richer, but however the royalty, we have seen fair bit of reduction even in other percentage of sales, if you can explain that, that should be really helpful. And apart from that there has been significant rise in other incomes, so how sustainable that is

going forward and also the reduction in depreciation expenses on a sequential basis, if you can throw some more light on this?

Ajay Seth: Okay depreciation has largely gone down , because the in the fourth quarter, we had this tooling which earlier used to be amortized in the material cost, the accounting was changed to align it with IFRS and it was a effective in depreciation, so it was a one-time kind of a thing. But therefore you see that kind of a blip in Q4. On a regular basis, I think depreciation is in this ballpark, what we have seen now.

Pramod Kumar: That was more on the royalty side, sir, royalty as a percentage of sales coming down to around 4.7-4.8, whereas as you pointed out the mix was richer this quarter with more recent products doing well.

Ajay Seth: So royalty I think is, if you are comparing it with last year, we had an exception of...

Pramod Kumar: No, I am comparing on a sequential basis.

Ajay Seth: Even if you are comparing on a sequential basis, what's happened is, that the exports volumes are dropping, that's one area, plus I think it's also a play of mix. So if the mix changes for example, there are some models, where we don't pay any royalty. I think if there is any proportional increase in those models, then the royalty actually goes down. We have always maintained that the royalties will remain between ballpark 5%-5.5% and the difference will be on account of mix exchanges etc. So it's a pure play of that.

Pramod Kumar: Okay so, there is no FOREX gain or no one-off in this, right?

Ajay Seth: No, there is no one-off at all.

Pramod Kumar: And sir, largely lastly on the buying behavior generally, because you do track lot of customers given the network you have and the experience of course, are you seeing any changes emerging in terms of the buying behavior or the priority what the customer is looking for, in terms of whether cost is the most critical part or is the packing order changing. So if you can throw some more light on that behavior and how it affects brand loyalty for incumbent like you?

Rahul Bharati: See what we have noticed is that the cost sensitive segment which is the smaller car, where demand has been hit more. The first time buyer percentage has gone up, while the additional car in the family has reduced by about 3% points. And the cost is definitely a very big criteria because we have seen enquiries going up, but the conversions are slow. And whatever market surveys we have done, we have found that customers are indicating towards higher fuel cost and higher interest costs.

Pramod Kumar: And generally, of course right now the demand environment is not so strong, but generally on the longer term, do we see any changes which have emerged in the last 3-4 years, where in cost is taking a backseat and probably more exciting products or more features which are emerging as bigger focus area for new customers, something like that. And also probably, if you can share the

current spread between first time buyers and probably new car additions, as in what is the split currently?

Rahul Bharati: I think it's very relevant question. The balance of excitement, body styling, fuel efficiency, the upfront cost of the car, I think this balance in India is very critical and it is very important to read the consumer right.

Pramod Kumar: Exactly.

Rahul Bharati: We have been fortunate that most of our products have been able to get this balance right and some of our other models that came in the industry, have not been able to do it. Somebody concludes that India is a very cost sensitive buyer, somebody assumes that he looks out for aspirational element. So it's alright balance that we have to provide in the products and fortunately, our products have done well on that account. On the second question, the first time buyer is now 47% of total. The additional car in the family is about 28% and the replacement is the balance 25%.

Moderator: Thank you. The next question is from the line of Sahil Kedia from Enam Securities. Please go ahead.

Sahil Kedia: Could you share with us the export revenue for the quarter?

Ajay Seth: Export sales for this quarter is 867 crores.

Sahil Kedia: Sir, then continuing in another line of question you have seen before, could you throw some light on any trends that are seeing in terms of the failure within the urban customers, versus the rural customers? We know that you measure the performance in terms of top 10 cities etc. What are some of the trends in the sense that this slowdown or the sluggishness in demand, is it more being witnessed in the top 10-20 cities or is it a broad based slowdown. If you can just help us understand that?

Rahul Bharati: It is generally a broad based slowdown where the middle India is affected quite a lot. Rural demand continues to grow, but at a more moderate pace, earlier it was growing at a very high pace. In terms of consumer segments, the government employees still are a good percentage, they form about 14% of our total sales. Possibly it is safer for them, in more dynamic times, so they are buying. And in terms of geographies, I think the north zone has been affected the most. The west zone is going very good. East and south are mediocre.

Sahil Kedia: And sir lastly, could you just tells us the contribution of the rural segment in terms of ..?

Rahul Bharati: About 20% of total.

Sahil Kedia: And this let's say sometime last year would be how much?

Rahul Bharati: Around the same.

- Moderator:** Thank you. The next question is from the line of Jamshed Dadabhai from CitiGroup. Broking. Please go ahead.
- Jamshed Dadabhai** I have two questions sir, one is what is diesel cars as a proportion of your overall mix in this first quarter vis-à-vis the last quarter, just the fourth quarter of 11? And my second question is on the demand bounce back that you all are expecting for the festive season, is this just an expectation or you are all seeing something tangible in terms of footfalls inquiries ??
- Rahul Bharati:** Jamshed on the first part of the question, the diesel sales accounts for about 21% of the total domestic sales.
- Jamshed Dadabhoy:** And last quarter?
- Rahul Bharati:** Last quarter they were about 19%.
- Jamshed Dadabhoy:** See my question on demand bounce back, you know everyone across the consumption space seems to be expecting a bounce back to happen around the festival season. Is there any sort of data that you all have or is this just an expectation, i.e. when you said that you know enquiries are still high, could you give a sense of what the enquiries are in terms of year on year growth and on also the growth in footfalls vis-à-vis conversion rates.
- Rahul Bharati:** See, generally we have seen that whenever that fuel price hike happens ,we have studied about 10 hikes in the past, demand bounces back within about six weeks on an average of 4-8 weeks of the hike, so people get adjusted to the new level and they take it as part of life and buying returns as normal. This time the hike was particularly high and this happened in a very short span of time around Rs.6 in a single go. So possibly the impact is slightly deeper, plus it was coupled with an interest rate hike also. So we did expect that demand bounce back might take longer than about six weeks ,as it has happened in the past. Generally festive season in India is a very strong trigger for consumption and since the fundamentals of the economy, the underlying fundamentals are still quite stronger, household incomes are going at a good pace, job growths are happening, salary increments across sectors are fine. We have not heard of any untoward news. So, it is kind of reasonable to expect that future is uncertain within those boundaries. It is reasonable to expect that the festive season may trigger sales bounce back.
- Jamshed Dadabhoy:** Any indication in terms of the conversion rates vis-à-vis the increase in footfalls at your dealers.
- Rahul Bharati:** We will have to go into much deeper granularity because there are enquires, we clarify as hotly, warm, cold, cool leads and then there are individual segment wise conversion rates but generally we have seen that enquiries are going at a good healthy pace and when we ask these customers, they are holding back their decisions of purchase.
- Jamshed Dadabhoy:** Rahul, could you give some sense of what your retail sales were for the quarter?
- Rahul Bharati:** There has been a marginal increase in our network stock, so it is slightly lesser than wholesales.

- Moderator:** Thank you. The next question is from the line of Gaurav Agarwal from CRISIL, please go ahead.
- Gaurav Agarwal:** My question is that, you said that your retail sale is slightly lesser than your wholesales, could you be please quantify this?
- Rahul Bharati:** No it's marginal, I mean within the norms of about 10% or so.
- Gaurav Agarwal:** What your channel inventory in terms of days of sales volume?
- Rahul Bharati:** It is between 4-5 weeks.
- Gaurav Agarwal:** What is the normal level?
- Rahul Bharati:** 3-4 weeks.
- Gaurav Agarwal:** So it is slightly higher and sir my other question is more towards housekeeping side. There is a reclassification of line item from deduction in expenditure to the other operating income in the first quarter FY11. So what was that item sir?
- Ajay Seth:** Line item is the foreign exchange gains which were earlier netted off from the expenditure in the first quarter last year. So they have been reclassified, that's all.
- Gaurav Agarwal:** You said that on depreciation side, the decline was due to the policy change and now you are not amortizing the tooling expenditure in the depreciation but writing them off.
- Ajay Seth:** That's right.
- Gaurav Agarwal:** So going forward, it will be like this only and sir any one-time change on this quarter number because of the change in policy.
- Ajay Seth:** One-time change has happened in the Q4 of last year. There is no one-time change in this quarter.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Emkay Global, please go ahead.
- Chirag Shah:** One was the currency side, you indicated you have hedged yourself for Q2, is it possible to share what is the kind of rate that which you hedged yourself and if I am not wrong, I think so in the first quarter you are hedged in the rate of 83-87 yen to dollar, right?
- Ajay Seth:** Yeah so the rates currently would be slightly inferior to the rates that which we had hedged in Q2 but definitely much better than market rates, so that is on the import side. Also on the export side our rates on the hedges on euro-rupee as well as dollar-rupee. On the export side would be much better than the market rates. So we would be on the money on export side ,where as in yen there would be some loss compared to Q1 on account of hedges that we hold at this point in time but that is not going to be significant.

- Chirag Shah:** And are you still now open for the second half in terms of hedges or you have started taking positions because yen seems to be out of anybody's understanding.
- Ajay Seth:** We at this moment is not taking any hedges because we firmly believe that yen has to correct at some point in time and we will immediately take hedges when we find a correction in yen happening as when it happens because we have time to wait till September. So in between whatever opportunity we get, we will try and pick up Yen contracts.
- Chirag Shah:** And as on other expenditure portion, did you indicate why it is on the higher side, was there some lumpy booking of treasure income or ...
- Ajay Seth:** Other income usage?
- Chirag Shah:** Yeah other income it was some 180 odd crores in the quarter.
- Ajay Seth:** Yeah other income was higher on two accounts, one was that there was capital gain that happens on account of long term investments that you make over one year. So that is one reason. Last year, corresponding quarter, there was hardly any long term gain because of the market situation and the other side the yields have gone up considerably. The returns that you are getting on the cash is much higher than what is was last year.
- Chirag Shah:** So we can expect slightly lower rates for the remaining three quarters that is the right way to look at it?
- Ajay Seth:** No the rates will remain as it is, there is no reason for the rates to go down. only thing is capital gain would be one-time. So that will not get repeated, so 40 odd crores out of this would be a one-time long term capital gain.
- Moderator:** Thank you. The next question is from the line Hitesh Goyal from Kotak Securities, please go ahead.
- Hitesh Goyal:** Just on the raw material side, You in your previous con call said that you have taken a 10% increase on the steel side and also you are upward pressure on the rubber side. so sequentially do you see rubber prices not going up and on the steel side you will have the same contracts till October. Is this the way we should see it.
- Ajay Seth:** Yeah absolutely right, on steel our contracts are for the first half till September and on rubber you know the compensation is given in the lag effect, so there is no increase expected in the second quarter. We may actually see some decline in the third quarter. If rubber prices show a downward trend, which we assume should happen.
- Hitesh Goyal:** Okay and sir can you share something on the new product plans, we know that Swift is coming through but on the Dzire or the UV that is going to come in or what is time line of these launches?

- Rahul Bharati:** You will hear about them over the next 6-8 months but beyond that we won't be able to share much on our new products.
- Moderator:** Thank you. The next question is from the line of S. Nair from Capital Market, please go ahead.
- S. Nair:** I just wanted to clarify that you said that there is one time capital gain and other income this time is 40 crores, what was it for the previous year? There wasn't any capital as such?
- Ajay Seth:** The previous year was a very small value. we had not logged much in the long term given the kind of interest rate scenario. So the comparable difference would be about 40 crores. so therefore I am saying the exception would be the income that hit us in the first quarter, it would be approximately 40 crores on treasury which is not going to be repetitive. So what you will find is that Q1 of next year. You find this again as an exceptional income coming. So that is the kind of cycle it will follow now.
- Moderator:** Thank you. The next question is from the line of Pramod Amte from RBS Securities, please go ahead.
- Pramod Amte:** This is with regard to manufacturing and other expenses, there is commendable job there in terms of reduction. Do you think these low levels are sustainable?
- KD Singh:** See as you know that cost control has been the focus area and we have been trying to see that we have cost reduction all across the production and other initiative areas. Of course, some of this is a result of last time, there being a royalty arrears payments. So that is something which you have to strike that off from it, rest we think it is fairly sustainable and we should be seeing such cost efficiencies in the remaining part of the year also.
- Pramod Amte:** And the royalty has come down, is it more to do with the product mix or anything to expect considering the difficulty which you are facing on the demand front. any relief to come through from the parent in any form for you guys?
- KD Singh:** No I think this question was raised earlier also and we have said that royalty is a function of several sectors, product mix, certain products on which we don't pay royalty, certain products on which we pay a certain rate and then there is exchange rates factor which comes in. So royalty is going to remain in this vicinity of 5-5.5%.
- Pramod Amte:** But other than the royalty any relief to be seen from the parent side, you considering the difficulties in the demand environment, any talks in that direction?
- Ajay Seth:** There is nothing on this, I think we had clarified our position as to why royalty has gone up, what is the technology input as been given by Suzuki. And we said that for sometime, royalty would be in the vicinity till such time our own R&D center comes in play. so the royalty is going to be in the vicinity of 5-5.5%.

Moderator: Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank, please go ahead.

Srinivas Rao: I have a question on different tone. Sir your revenues skew is significantly towards the entry segment of vehicles and that is the segment which at least waves on the available numbers, is either growing at market or below market rate. So do you see any changes in how you would like your vehicles to be positioned or your new model lineup which has come up to correct this anomaly?

Rahul Bharati: Maruti is a full range provider of cars. so our aspiration is to have a car for every family; every use but India is largely a small car market. So it is natural that the market leader would have a very high dominance of small and compact cars in its portfolio also. In our line up we are studying the Indian consumer very closely, he is moving up in life and along with him we are moving. It is not just the vertical movement, its sideward movements also. so at the same price coin there could be a different application, he might like to use a weekend car for a picnic or something for a family or something like that and we would be considering such applications of our products. So our aspiration is to be a complete provider across all users, all families to gain maximum volumes for India. And it is a very cyclical phenomena that a particular segment has been affected in this cycle. The next cycle, some other segment could get affected, so the more you are spread out the better placed you are to handle such cycles.

Srinivas Rao: Just clarifying did the workers at Manesar participate in the recent election?

Ajay Seth: The workers at Manesar did not participate in the elections but as we have said publicly also that is really a matter of the workers and the union internally. The management was essentially facilitating that process.

Srinivas Rao: Fair enough sir and just the scrap sale number for the quarter if possible?

Ajay Seth: Scrap sales in this quarter is of the order of 71 crores.

Moderator: Thank you. The next question is from the line of Raghunandan from Avendus Capital, please go ahead.

Raghunandan: I just wanted to understand when you said like you are receiving enquires on the new Swift and you see a demand of 30,000. So like have you started taking orders for the new model?

Ajay Seth: Yes started taking orders.

Raghunandan: So ideally do you think because of those orders, the current sales are being cannibalized?

Ajay Seth: See we have stopped production of the earlier model of the Swift. So to that extent what you are saying is right because there is not too many of the old Swift available and these orders are for the new car.

Raghunandan: Okay.

- Ajay Seth:** So to that extent there is a switch over that is happening.
- Raghunandan:** Like how are seeing the trend on the export side. Do you see it picking up in the future, are you diversifying into emerging markets?
- KD Singh:** Yes we are diversifying in fact we have reached almost to about 100 markets of the world and Europe which about last to last year was 80% of our sales, moved to 50% about last year and in the first quarter this year is about 33%, that is because post of scrappage in centers, European market is not growing. So we would like to diversify our presence across these markets but at the movement the overall volumes are not very lucrative.
- Moderator:** Thank you. The next question is from the line of Vidhan Agarwal from Kim Eng Securities, please go ahead.
- Vidhan Agarwal:** My question was regarding the increase in stock-in-trade and work-in-progress. Could you just give us the break down on like what contributed to this increase?
- Ajay Seth:** I think you should read the consumption figure or material cost or net sales as a base because stock-in-trade and work-in-progress would continue to vary quarter-on-quarter depending upon at what level is the car at, so if the car is not fully finished, WIP or work-in-progress could be higher or lower. So the better way to look at it is what is the consumption figure to net sales, which will give you right idea. So WIP and stock-in-trade can vary quarter-on-quarter because you will never have a figure which will show you any kind of symmetry at a given point in time.
- Vidhan Agarwal:** Okay then my other question was regarding the new Swift. You said you have 30,000 bookings but how many would you be able to sell on a monthly basis?
- Ajay Seth:** We are ramping up capacity because now we have Swift coming up in this new plant in Manesar. It will be more than what we have done so far, may be to the order of 15,000-17,000 to start with.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS, please go ahead.
- Sonal Gupta:** Sir just I mean could you just give us some more detail breakup of the other operating income?
- Ajay Seth:** See the other operating income largely comprises of 3 or 4 major heads, one is scrap sales, the other is cash discounts that we received on early payments that we made to our vendors, foreign exchange gains and we have some recover of service charges and there are some miscellaneous receipts which are related to operations. A bulk of the income comprises of scrap sales and cash discounts that we received on early payments. So out of the total 209 crores of operating other income, the scrap sale is 71 crores, cash discount that we would have received on early payments would be 53 crores and income from services would be 41 crores. These are various services that we provide on which we receive income. So these are broadly the heads.
- Sonal Gupta:** Yes and sir another question was, on the discounts are netted off from net sales or do you put in sales selling and distribution expense.

- Ajay Seth:** No discounts are netted out from net sales.
- Sonal Gupta:** So could just tell us why the selling and distribution expense dropped sequentially as well as year-on-year?
- Ajay Seth:** Selling and distribution expenses have two constituents, one is the advertisement cost. Second is the warranty expenses, and third is the ocean trade. Ocean trade is of course lower because the exports are lower. So therefore you see that dropped and also advertisement cost is a shade lower than what it was the same period last year because at that point we had some launches where the advertisement cost was higher and advertisement cost would also depend on, if you would add specific launches at a given point in time. It may tend to go up in that quarter.
- Sonal Gupta:** My final question was on a longer term basis, given that this shift on the diesel side and given that it looks very unlikely that the gap is going to come down very significantly. What is the plan in terms of are you looking at more diesel engines potentially, I mean I understand that Suzuki is probably tied up with Fiat for one more engine. So what is the plan on the diesel side in the longer term?
- Rahul Bharati:** Fiat tie-up is for technology, the capacity is on the plant and capacity expansion on the existing diesel engine can always happen. So we are increasing from currently about 2.4 lakhs to about 2.9 lakhs per annum and we will be watching the market beyond that and we will take a reasonable call.
- Sonal Gupta:** You are talking about the engine capacity?
- Rahul Bharati:** I am talking about the production capacity of the diesel engine.
- Sonal Gupta:** But wasn't this already 3 lakhs. I mean I thought that SBI...
- Rahul Bharati:** We were planning to make it to 3 lakhs by the second half of this year, which is on schedule.
- Sonal Gupta:** Right but will it go up more now that you have the Manesar and you can produce more diesel cars and especially the second unit of Manesar coming in.
- Rahul Bharati:** 3 lakhs means about 25 thousand a month, we are still doing much lesser than that but we will be watching and we will take a reasonable call on whether we do it for the productivity stretch or if we need to add more capacity, we will be taking the call.
- Sonal Gupta:** Sorry I understand that you don't give sort of product wise breakdown but should we understand there is not a major difference between profitability on a diesel versus petrol car for you or is there, I am mean just on a qualitative basis.
- Rahul Bharati:** We always talk on blended average of margins and we always try to sell as many cars as possible, so which ever customer wants which ever car, we would love to provide that and through our

overall programs on cost efficiencies and productivities, we try to improve our margins. So there is nothing specific to each model.

Moderator: Thank you. The next question is from the line of Sumit Agarwal from ICICI, please go ahead.

Sumit Agarwal: Just wanted to check in terms of how is in your market share, is the downtrend or decline in the volumes across the market.

Rahul Bharati: It is across the market but because of our supply side issue of the Manesar IR problem, there was shortfall of about 15-16,000 vehicles. So if we account for that, I think broadly of our market share is in place.

Sumit Agarwal: How do you see your competitors in terms of the discounting or the pricing side and if you are looking at many of cars are coming in the hatchback segment. So do you see that as a bigger threat rather than just a demand there? What I meant to say is probably the sector demand might be still at 8-10% but you might grow at relatively a lower pace?

Rahul Bharati: We have to take all competitors seriously, all competitions product launches seriously and on our own also we are improving our products with respect to their past performance even though they were doing quite well. We have seen this round of increased competitive intensity for the past two years, fortunately last year we were able to increase our market share marginally despite strong launches. Some of them priced very aggressively. So at the moment our bigger worry is the macro economic situation, we would like demand momentum to come back to India and then industry can enjoy the benefits together. At the moment, there are no major concerns for market share.

Sumit Agarwal: Okay so you expect the market share to be more or less maintained give or take 50 basis point here and there.

Rahul Bharati: I would not ...

Sumit Agarwal: No I am not saying, just that is the endeavor that you will be looking at?

Rahul Bharati: We would endeavor to give our customers the best deal in the market in terms of overall value of the offering.

Moderator: Thank you. The next question is from the line of Ashish Nigam from Antique Finance, please go ahead.

Moderator: Thank you. The next question is from the line of Ambrish Mishra from Daiwa Capital, please go ahead.

Ambrish Mishra: Just wanted to get your sense of the new Swift and the new Dzire that gets launched may be in the next couple of months. How the royalty payment on that differs compared to the existing models?

- Rahul Bharati:** I thought you would be more excited about the numbers that the new Swift will do. There is no particular input from royalty on specific models as of now. Mr. Seth has given you a broad range that we should consider the royalty in the range of 5-5.5% over the next medium term.
- Amrish Mishra:** And finally given that we are actually preparing ourselves for a much higher capacity going forward. Do you think FY13 could surprise on the volume front positively for the industry as a whole because right now, probably what the customers are doing is they are postponing the purchases. So do you believe that as this overall concern of rate hike and inflation starts coming down by the end of this financial year. FY13 could see a very significant uptick in demand because a lot of purchases would have been postponed?
- Rahul Bharati:** See we have maintained that the demand story in India for the next five years is going to be quite healthy because of both household incomes and aspirations; however; we cannot expect a very uniform kind of growth. We have to accept that, there will be cycles so two years back there was 0% growth for the market, then we had two years of about 25% and 30%, in the Q1 we had a lower than normal expected growth. So there is nothing specific that can be said about FY13 but what industry has to be ready for is huge fluctuations around a mean high rate of growth and which means we have to improve our agility, our flexibility in the market, our ability to read the market fast and to respond to it fast, lower lead time and faster reactions.
- Amrish Mishra:** And finally is there any plan on further these 3 lakh capacity on diesel front may be getting into the FY13 and eventually what would be the share of diesel vehicles in our total sales mix at the end of FY13?
- Rahul Bharati:** I will answer your second question first, this is first time that the government has deregulated petrol and stuck to it even at a high crude price scenario but diesel has been left open. So the arbitrage has gone really high ,it is unprecedented, it is of the order 35-40%. We do not know whether this arbitrage will continue in the future also or not. We are watching the situation and if a call needs to be taken on that capacity or output whether it is productivity or by additional investment, we will be considering that.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor back to Mr. Mahantesh Sabarad for closing comments, please go ahead sir.
- Mahantesh Sabarad:** Thank you Melissa .we at Fortune Equity Broker thank all the participants for listening into this conference call today. We also thank Maruti Suzuki for discussing the Q1 FY12 results and for patiently answering the queries from all of you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Fortune Equity Brokers that concludes this conference call.