

Transcript

Conference Call of Maruti Suzuki India Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Moumita, moderator for this conference call. Welcome to the Maruti Suzuki Q1 FY17 earnings call, hosted by IDFC Securities. We have with us today the management team from Maruti Suzuki. At this moment, all the participant lines are in the listen only mode. Later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note that this conference is recorded. I would now like to handover the floor to Mr. Deepak Jain from IDFC Securities. Please go ahead sir.

Deepak Jain: Good evening everybody. On behalf of IDFC Securities, I welcome you to this conference, Q1 FY17 conference call for Maruti Suzuki India. We have with us the management of Maruti Suzuki. I now hand over the call to Mr. Nikhil Vyas. Over to you sir.

Nikhil Vyas: Thank you Deepak and a very good afternoon to all of the participants. May I introduce to you the management team from Maruti Suzuki. Today we have with us our CFO Mr. Ajay Seth, Senior Vice President – Finance Mr. Pradeep Garg and other team members from the finance. From the Corporate we have the Vice President – Corporate planning and Government Affairs Mr. Rahul Bharti . The concall will begin with the 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. They have to be understood in conjunction with the uncertainty and the risk that the company faces. And 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, Nikhil. Good afternoon Ladies and gentlemen and welcome once again to Maruti Suzuki's conference call.

May I start with a positive piece of news? It's a moment of pride and joy for us as Nexa just successfully completed its one year of coming into being. In just a year's time Nexa has grown to 150 outlets in 94 cities, well ahead of target, welcoming over 100,000 customers. The current portfolio at Nexa includes the crossover - S-Cross and premium hatchback – Baleno. We will continue to keep the excitement level high with introduction of new products in both Nexa and our existing channel.

During Quarter 1, there was an unfortunate incident of fire at one of our critical suppliers. This led to temporary suspension of production starting first week of June. Our Supply Chain and Production teams tried to meet adversity with agility. To minimize the impact on sales, the company preponed its maintenance shutdown to use that time in trying to resume operations. During the course of the year, we will make efforts to recover the lost production. Despite the fire incident, the Company

registered a growth of 5.4% in sales in the first Quarter. Industry growth was 6.7% in this period. Our market share stood at 46.2%.

New model launches contributed handsomely to the overall growth. These models created excitement and enticed urban buyers to make purchases, pulling up growth in the top tier cities. However, rural demand continued to be sluggish. The monsoon has been good so far. We hope it will support the rural economy and car sales in the rest of the year.

In Quarter 1, Industry ratio of fuel segment sales was 59% petrol and 41% diesel. This is a shift of 3% in favor of petrol from the same period last year. The Company ratio stood at 70% petrol and 30% diesel. Models like Baleno and Vitara Brezza continue to have a strong pull from the market. We are making efforts to reduce the customer waiting time by enhancing production.

During the quarter, exports sales declined by 26.7%. This was majorly due to high base of sales to Sri Lanka in the previous year and partly due to the impact of production suspension in the month of June.

Before coming to Financials, we would like to inform you that the results for the quarter have been prepared in compliance with the Indian Accounting Standards (Ind-AS). To facilitate a like to like comparison, the results of the first and Fourth Quarter of Financial year 15-16 have been restated. In the investor presentation we have detailed the impact of the new accounting standards.

Accordingly, the company registered Net Sales of Rs. 146,545 million and a Net Profit of Rs. 14,862 million, up 12.1% and 23% respectively over the same period last year.

The Profit in the quarter was helped by higher volume, material cost reduction efforts, higher non-operating income and lower depreciation, partially offset by adverse foreign exchange movement.

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

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Sir, our first question comes from Mr. Pramod Kumar from Goldman Sachs. Please go ahead sir.

Pramod Kumar: Good afternoon sir. And thanks a lot for the opportunity. My first question pertains to Baleno exports; basically we are the global outsourcing hub for Baleno. Just wanted to get some color from you on the demand for Baleno globally, including Japan and also what is the billing currency for Baleno exports from India?

Rahul Bharti: I think the demand is yet to be seen. There is a longer cycle in exports, because we export it to the country. The distributors stock it for some time. Then he looks at the retail discounts. So, it is slightly premature to talk about the demand as such. Broadly we had estimated about 50,000 a year, but it is yet to be seen.

Pramod Kumar: Okay. You are not reconfirming the number of 50,000 for the full year?

Ajay Seth: That is what we are expecting it should happen. But, what Rahul just said was that it is too early to say what is the exact thing, because the vehicles have gone just a couple of months back, and we are yet to get our proper feedback. So far it looks good. We don't see any issue to achieve those numbers. But, let's wait for another few months to see how it pans out.

Pramod Kumar: Billing currency for Baleno?

Ajay Seth: That has been billed in yen.

Pramod Kumar: Across all the world, across all the markets in the world?

Ajay Seth: Yes.

Pramod Kumar: Okay. Because, that is something which, there was a bit of a confusion whether it is only Japan exports or even other countries. Thanks for that. And related to that is your JPY exposure, so how should one look at it, because your margins have come in context of a very strong JPY; so if you can help us understand how are the overall exposure has changed post Baleno exports picking up, that will be really helpful and the currency rates for this quarter?

Ajay Seth: So, the overall exposure on import side, I think it continues to be largely on the indirect imports, because that is where the bulk of the exposure lies. On direct side we will have imports exposure on royalty and partially on the direct imports that we make, which is now getting partially offset with the export exposure that we have. So, as a result I think the net exposure would have marginally come down. But, largely the impact would be on (a) royalty and (b) on the indirect imports.

Pramod Kumar: And so in a way is it right to say that it has come below 10%, the net exposure after factoring in the exports of Baleno?

Ajay Seth: I would not have that number immediately with me, but if you want to factor in indirect imports, then it will be much higher.

Pramod Kumar: Okay. And sir, export revenue for the quarter, last question.

Ajay Seth: 1352 crores.

Pramod Kumar: Thanks a lot sir. I will come back in the queue. Thanks a lot and best of luck.

Moderator: Thank you sir. Sir, our next question comes from Mr. Jai Kale from Elara Capital. Please go ahead sir.

Jai Kale: Thanks a lot for taking my question. Sir, my first question pertains to your exports. Now, with localization largely done, only the electronic part is remaining, as you mentioned in the last call, would you be looking at this arrangement of increasing your Suzuki sourcing more of your products from India and then kind of nullifying the yen exposure to that extent. Is that the strategy going forward?

Rahul Bharti: Exports is a market driven strategy. We sense an opportunity in the markets around the world and we think we can supply a great Indian product from India, profitably we do it. There is another exercise where we try to minimize our forex exposure that is localization and both go on separately.

Jai Kale: Okay, got it. Sir, and second would be, what would be your rural growth versus the urban growth? What would be the spread between the growth rates currently?

Rahul Bharti: In quarter one rural was flat. Whatever growth we got, we got it from urban.

Jai Kale: Okay. And just last question, what would be this impact of currency and raw material separately in this quarter versus the last quarter?

Rahul Bharti: You are saying quarter four versus quarter one?

Jai Kale: Versus the quarter one, yeah. I understand you have not given the Ind-AS for quarter four. So, maybe on a like to like basis, what would be the currency and the commodity impact?

Ajay Seth: When you look at quarter four, there is one, when quarter four material cost is finalized, there is lot of reduction that happens which pertains to the earlier quarters, because you finalize the contracts with vendors with regards to the raw materials and other commodities in the last quarter. So, there will be a fairly large chunk of cost reduction that happens in the quarter four. So therefore I think quarter four to quarter one becomes a little bit of wrong comparison. But, to give you a like to like comparison, I think the royalty cost has actually gone up by about 0.3% from quarter four to quarter one, on account of largely foreign exchange and little bit on commodities, partially offset by the cost reduction. And what else? Does it answer your question?

Jai Kale: Okay, got it. And just lastly, on the discount side, what would be the average discount for us this quarter?

Ajay Seth: 16,800.

Jai Kale: Okay, good. Thanks. That is it.

Moderator: Thank you sir.
Sir, our next question comes from Mr. Yogesh Agarwal from HSBC. Please go ahead sir.

Yogesh Agarwal: Hi sir, good evening, two questions. Firstly, in the presentation you mentioned commodities are a bigger risk for margins going forward than the currency. And we have seen commodities actually softening now in July by around 6%-7% at least, the steel. So, is there impact going forward from commodities higher than the currency impact?

Rahul Bharti: On steel, what we are worried about is, the steel industry has lobbied hard with the Government and they are thinking of imposing some protectionist measures. We don't know the nature of and the magnitude of these measures. So, we have put there an element of uncertainty there.

Yogesh Agarwal: Okay. And this is outside MIP?

Rahul Bharti: Yes. Our understanding is that MIP might go sometime and some other measure might be imposed. We do not know how harsh that would be, whether it would be on only those grades or those set, where there is actually injury to domestic steel industry or across the board. So, there is a lot of uncertainty there. And there seems to be a lot of sympathy for the domestic steel industry, so we have built in our caution.

Yogesh Agarwal: Got it. And sir, for other income it has been much better than what actually we had forecasted. So from here on, can we just build increase in line with the cash accruals or there is some carry forward from the previous year, in this quarter's other income?

Ajay Seth: No, I think from here on you can build in based on the accruals. So, there will be no carry forward as such.

Yogesh Agarwal: Okay, great. Thank you so much.

Moderator: Thank you sir. The next question comes from Mr. Jinesh Gandhi from Motilal Oswal. Please go ahead sir.

Jinesh Gandhi: Couple of questions. One is on the commodity cost side. Based on the current commodity cost, what kind of pressures do you see on the RM side? That is question number one. Second question pertains to the depreciation rate for the quarter. We have seen significant reduction in depreciation both on YoY and on the QoQ basis. Is there any one off item there or this is more sustainable rate?

Ajay Seth: On commodities, steel we will have to see what the Government stance on steel is?. So, we will have to accordingly deal with it. Other commodities don't look so bad at this point in time. They are about okay. So, we have our stance that the commodities other than steel should not harden so much. On the depreciation you mentioned, we have had one change in the depreciation policy, where the dies which we were depreciating over four years, we have changed the policy to five years now, because that is basis we have used also for evaluating our products etc. as well. So, there is an impact of about 83 crores in quarter one, because of the change in policy.

Jinesh Gandhi: Okay. And couple of housekeeping questions. One is with respect to royalty, what was royalty in this quarter? And second is with respect to your average realization you had on our rate?

Ajay Seth: Royalty amount was 961 crores. And it was 6.6% net sales. So, the rate that we used was 0.65 yen-rupee on 30th June, this was the rate for mark to market of royalty.

Jinesh Gandhi: Okay. And average rate at which it was paid was 0.65?

Ajay Seth: That's right. That's right.

Jinesh Gandhi: And this 961 crores includes some mark to market of the previous quarter?

Ajay Seth: There is no previous quarter now, because it is April to June. So, it has just started this year. So, it is only this year's royalty. There is no previous mark to market it in.

Jinesh Gandhi: Okay, right. Understood. Okay sir, thanks.

Moderator: Thank you sir. The next question comes from Mr. Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Sure. Good evening sir. Thank you for taking my question. Just to start with, on the RM cost, given that did we see the full impact on the domestic steel procurement side in this quarter? Or, do we expect that there will be some more increase in the coming quarters, on the domestic steel procurement?

Ajay Seth: Very difficult to say at this point in time, though we have tried to factor-in likely exposure, but they are still under negotiation. We have still not closed the negotiations. We are trying hard to make it as narrow as possible. But, we have more or less taken into account the likely impact that we see happening.

Sonal Gupta: Right. And just can you confirm, on the exports you said, Baleno is billed in yen for everything that you export? So, you are selling to Suzuki Motor Corporation and then they sort of sell it to other markets, is it?

Ajay Seth: That is right.

Sonal Gupta: Okay. And just on the royalty side, you have mentioned 6.6%. This is just a clarification. So do we pay the withholding tax also, which would be applicable on royalty, which is included in this, is it?

Ajay Seth: The withholding tax is not included in this and it is borne by SMC.

Sonal Gupta: Okay. And sir, just last question, again we are hearing that in Delhi ban had been imposed for diesel vehicles over ten years and fifteen years potentially for petrol vehicles. Do you think that longer term this could change buyer behavior, given that if you really have ten year lifeline, people may stop buying cars at that propensity? Will that impact buyer behavior for new cars as well?

Rahul Bharti: I think this is a decision of some courts. Finally the policy has to come from the Government or the executive wing of the Government. And once we have that clarity, consumers will know what to look out for. At the moment there is some sense of panic in consumers. So, we could wait and watch till the cases are resolved.

Sonal Gupta: Okay sir, great. Thank you so much for answering my questions.

Moderator: Sir, our next question comes from Mr. Ronak Sarada from Axis Capital. Please go ahead.

Ronak Sarada: Hi sir. Thanks for the opportunity here. Quickly can you share what is the waiting period for Brezza and Baleno currently? And also the petrol and diesel mix for Baleno?

Rahul Bharti: So, waiting period for Baleno is approximately six to seven months and for Vitara Brezza, it is eight to nine months. And we are trying our best to resolve it. We are trying to enhance production, so that customers don't have to wait so long. And the Baleno diesel percentage is approximately 18% in Q1 FY' 17.

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

Aryn Pirani: Hi sir. Thanks for the opportunity. Sir, my first question was on the discount number. It appears that on a YoY basis, it is a higher number, unless there has been some change in the accounting for discounts. So, given that the mix in 1Q was significantly better than last year's 1Q, any reason why the discount number would have been higher?

Ajay Seth: Discounts have been higher about Rs.800 or so per car. So, about the same as it was in Q1 last year. And there are varieties of reasons for discounts to move. So, it will depend on each model, also the diesel, petrol mix, as to what is the traction etc. So, every quarter will vary depending on how the market is behaving. But, discount numbers have been more or less same in quarter one of last year and now. Even in quarter four to quarter one, discounts have not changed much and it was slightly better by ~Rs 750 per car.

Aryn Pirani: Okay sir. And on the currency impact, would it be fair to say that whatever currency movements we saw in 1Q, the whole impact is visible in your numbers or would there be some follow on impact in 2Q and 3Q as well, assuming currency remains stable from now on?

Ajay Seth: Bulk of it is visible. The large impact is of yen movement. bBecause the largest impact that you see is on the royalty. Royalty is already reinstated as of 30th June, as already we mentioned, 0.65 or thereabouts. I think the current rates a shade better than what we reinstated at. And on indirect we have a quarter lag. So, indirect exposure for forex would come with the quarter lag. So, the current quarter actually shows the quarter four rates and quarter two of this year would show the quarter one rates.

Aryn Pirani: Okay. And sir very broadly, the indirect exposure would be around 5% to 6% of sales broadly or higher?

Ajay Seth: No, it will be higher. It will be about 10% to 11% of our sales.

Amyr Pirani: Okay. And lastly, when you said Baleno diesel is only about ~20% of sales. So, is it just the reflection of the swing in the customer preference or are there any production or capacity constraints as well?

Rahul Bharti: I think it is customer preference. If the petrol is very likable, people go for it.

Amyr Pirani: Okay, understood. Thank you for the opportunity.

Moderator: Thank you sir. The next question comes from Mr. Aniket Mhatre from Hypong Securities. Please go ahead.

Aniket Mhatre: Hi sir. Good evening. Thanks for the opportunity. First question was on the employee cost. It is now about 4% of net sales, from an average of 3½% net sales last year? Is this sustainable trend going forward?

Ajay Seth: During this quarter, as I mentioned, we lost some sale because of the incident that happened with the vendor. So, therefore the base has got impacted. If we were to be at the sales level which we had anticipated, then the ratios would have been about the same as last year. We don't expect this to go up beyond 3.5-3.6.

Aniket Mhatre: Okay, understood. And you alluded to the fact that your average royalty realization rate was about 0.66. But in case of direct imports, would it be fair to assume that the rate would be the average for the quarter and not 0.66?

Ajay Seth: Yeah, that is right. In case of direct imports, it would be more closer to 0.63 or thereabouts.

Aniket Mhatre: Okay, got it. And finally could you tell us the Baleno exports then for the quarter?

Ajay Seth: approximately 11,500.

Aniket Mhatre: Okay, thank you so much sir. That's it from my side.

Moderator: Thank you sir. The next question comes from Mr. Pranoy Kurian from IDBI Capital. Please go ahead.

Pranoy Kurian: Hi, just wanted to ask you about the depreciation. You said that there was an adjustment made to Q1 FY17. So, what would this figure for Q1 FY16 be?

Ajay Seth: So, adjustment was done this year for change in the depreciation policy for dies and fixtures which earlier, we were depreciating in four years and now we shall be depreciating it in five years. So, the adjustment done in this quarter is 83 crores and depreciation has gone down, because we have amortized it over five years, instead of four years. So, that is the extent of adjustment.

Pranoy Kurian: Okay, fine. And what is your hedge position for Q2 FY17?

Ajay Seth: We are going ahead on the basis of the board approved policy.

Pranoy Kurian: Okay. And could you give me the export revenue for Q4 FY16 again?

Ajay Seth: 1382 crores.

Pranoy Kurian: Alright. That is it from my end.

Moderator: The next question comes from Mr. Sumanta Khan from ICICI Pru Life. Please go ahead.

Sumanta Khan: Good evening sir. Thanks for the opportunity. My question is on the other expenses. It has grown 16% YoY. If I have the last year numbers on the royalty correct, around 728 crores, so that has gone up some 52% and that implies that other expense part has just moved 5%. Is that a good understanding sir?

Rahul Bharti: As was explained, the royalty cost has gone up because of the adverse exchange rate for yen. So, the other expenses that you are seeing is going up mainly on account of the exchange impact which has come on the royalty.

Sumanta Khan: No, the question that I was asking was, the overall expenses have gone 16% and royalty itself has gone 32%. So, if I skip off the royalty part, the rest of the expenses have gone up by only 5%.

Ajay Seth: Let me explain. I think the reason largely the expenses have been going down in most of the areas, one is the base effect as we said, that our sales were lower, because we couldn't produce certain number of vehicles. So, therefore it looks a little shade is higher. Second is, the spend on advertisements and marketing has gone up, compared to first quarter of last year significantly. So, that perhaps is the single most reason of other expenses, expenditure going up to the extent that you see. Other expenses are all going down, like power and fuel, manufacturing, administrative expenses, they are all going down. But, selling and distribution expenses and largely advertisement expenses have gone up.

Sumanta Khan: Sir, going ahead this is going to be a good lever for margin expansion once your sales comes back to normal level?

Ajay Seth: Absolutely. I think if you were to add in quarter one, the volumes that we missed, that would have all come in marginal profits. And that would have added to the margins, both at the EBITDA and the PAT level. So, that is a big number that we missed, because we couldn't produce those many cars. Since we have not been able to do it and we have committed that we will make it up in the remaining part of the year, so you will see that effect in the coming quarters.

Sumanta Khan: And finally sir one question on the effective tax rate. Earlier you used to have 24%-25% tax rate till last year; it was slightly on a higher side in Q4 at ~30%, this first quarter it stands at ~27%. Do you think it is a good number to take the for the full year,

Ajay Seth: Yeah, we will be at 27%, average tax rate.

Sumanta Khan: Thank you sir. Thanks a lot for the opportunity once again.

Moderator: Thank you sir. The next question comes from Mr. Pramod Amte from CIMB. Please go ahead.

Pramod Amte: Hi sir. Couple of questions. One, with regards to your other income, how do you account for the hedges mark to market? Does it come through the other income or where it is?

Pradeep Garg: Hedges which are mark to market, if it is on the expenditure side, it goes to other expenses.

Pramod Amte: No, the hedges which have not been booked in, in the sense you are right sir.....

Ajay Seth: If there is any hedge that has been created by us, at the end of the quarter would be marked to market. And if there is income on that, then it gets reflected in the other income. And if there is an expenditure or it is on loss, then it is reflected in the other expenses.

Pramod Amte: Okay, this is as per the Ind-AS new accounting.

Ajay Seth: Absolutely.

Pramod Amte: And is that the reason why your other income looks lumpy and hence you would like to qualify that?

Ajay Seth: No, no, other income is absolutely in line with the fair value of mutual funds, as we said. There is nothing lumpy about other income. The only thing is, when you are doing fair value, there are times when based on the interest rates or NAVs, you may have a sizable gain in some quarters and in some quarters you may not have that much of gain, depending on how the interest rates are moving.

Pramod Amte: Okay. And coming to the product lines, looking at the extent of waiting period for your new products, would you like to put on record what is the capacity there? When it will move up in terms of the monthly run rate for both Baleno and Brezza?

Rahul Bharti: We have taken steps and the capacity for both these models has already been enhanced to some extent. At this state I would prefer to wait for the market. And let's see how it pans out in the next few months.

Moderator: Thank you sir. The next question comes from Mr. Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Hi sir. Thanks for the opportunity. Actually I joined the call a little late, so it may be a bit repetitive. Sir, you mentioned that on the indirect exposure is close to 10% or so of the top line, is that entirely yen?

Ajay Seth: No, it is a combination of yen, euro and dollar. About 40% of our exposure would be yen. About 30% of our exposure would be euro, and the balance 30% would be dollar.

Binay Singh: Okay. So, in that sense, out of 10, , your yen exposure as a percentage of top line, if I add royalty at 6%, direct exposure at around 5% and indirect at around 4%, roughly comes to around 14%, right?

Ajay Seth: Yeah, that is right, about 14-15, yes, that's right.

Binay Singh: And on the exports side, you mentioned that around 11000 was Baleno. Could you also give us that out of the 530 crores of exports, what was Baleno in revenue terms?

Rahul Bharti: That would be giving a lot of information in a public domain, which will go to our competitors also.

Binay Singh: Okay. Otherwise that 11,500 number of Baleno, do you see it going up incrementally or is it already launched in all markets and it is like, in India we know that they are waiting, but how is it globally being received?

Rahul Bharti: We hope it moves up.

Ajay Seth: Binay, early days, we are hopeful to do very well. But, I think we will have to wait for a little more time to see the response and then we will be able to tell you better in terms of how it is shaping up. But so far, okay, the response has been okay, good and steady. But, let us wait for another month to see how finally it shapes up.

Binay Singh: And sir, lastly on prices versus discounts, typically we have seen Q1 discounts are low and then they inch up through the year. How do you see this year to play out, both in terms of potential price hikes that you can take, given some of your models are on waiting to the discount number on the rest of the portfolio, how do you see that playing out for the rest of the year?

Ajay Seth: Discount is a phenomenon of how the market is moving. , if the demand picks up, discounts are likely to be lower than were they are now. But, if the market shows a sign of slowness, discounts may go up. So, hopefully markets are getting better. So, you might not see discounts hardening from these levels. So, we will have to closely watch the market and see where the discounts move eventually. But, we are hopeful that discounts should stay steady compared to where they were last year or the year before.

Binay Singh: And is there anything on price hikes or so?

Ajay Seth: No, we have no such decision taken on any price hike yet.

Binay Singh: Great. Thank you sir. Thanks a lot.

Moderator: The next question comes from Mr. Basudev Banerji from Antique Finance. Please go ahead.

Basudev Banerji: Thanks for taking my questions and congrats for good set of numbers. Couple of questions, if I see your presentation on a like to like basis compared to last quarter, your material cost has increased by 170 basis points. So, can you just segregate that into impact of mix, currency and whatever we can break up?

Ajay Seth: Yeah, just give us a minute. We will give you a complete run down of what has happened between Q4 and Q1. So, in Q4 to Q1, the material cost to net sales ratio has gone up by 1.7%. Now, out of this 1.7%, about 1.3% is on account of the decrease that you see in Q4, on account of earlier quarters. So, as I mentioned earlier also, when you are finalizing the contracts for raw material and other commodities in quarter four, some of these contracts get finalized in the last quarter and the cumulative impact of that comes in quarter four. So therefore, quarter four always every year would see a very large amount of cost reduction. However it will depend upon how the cost is moving. So, almost 1.3% of the total cost reduction that we saw in quarter four was on account of earlier quarters. So, if I remove that, then the impact in this quarter is about 0.4%, the breakup of which is 0.5% on account of raw material, 0.6% on account of foreign exchange and set off by about 0.8% of reductions.

Basudev Banerji: Okay. And sir, any impact because of mix improvement per se with Baleno and Brezza thing for the full quarter?

Ajay Seth: Marginal, not very significant.

Basudev Banerji: And this quarter you can say that there was some impact because of the fire and some volume and mix got impacted in June. But, on a steady scenario, so how to look at the new revised mix, where your Baleno and Brezza will be there for all the three quarters along with other products also at a normal run rate. So, how to look at the gross margin because of the mix, whether they will be additive or they will be at par as such?

Ajay Seth: We don't give guidance on margins as such, but all we are saying is that the first quarter is a reasonable representation of the mix and the way it will move moving forward. So, on a 2% volume growth, we had about 12½% growth in revenue, sales revenue. So, I think the mix is going to move accordingly even for the remaining quarters of the year.

Basudev Banerji: And even in the 60 bps forex impact which you said, that includes the lag effect of the indirect import of Q4?

Ajay Seth: That's right. That's right.

Basudev Banerji: And how much one should look at for the next quarter, because the lag will come in next quarter?

Ajay Seth: So, you will have to take the average rates of the first three months, which I think would be about 0.62-0.63 or thereabouts. We don't have the number. There could be an impact; some additional impact of small value, not very large, marginal impact will come, but not very large.

Basudev Banerji: And no more incremental impact of commodity? So, whatever have been the renegotiated contracts, they are reflected in the numbers already?

Ajay Seth: Contracts we are yet to finalize. But, we have made specific provisions required for certain commodities. Hopefully we should not see more impact. But, once we finalize, we will be in a better position to talk about it.

Basudev Banerji: Sure sir. Then the last question is, this Pay Commission hike getting announced and all the potential demand improvement, so now in a scenario where you have some capital constraints, so how well you are positioned to enhance your production beyond that 10% growth which you guiding for the end of last quarter?

Rahul Bharti: I do not know how much of the growth will happen, because of the Seventh Pay Commission. But, the volume growth in this year, we were always conscious of and we were conscious of the fact that we have to increase our production to the maximum. So, we are trying to stretch to the maximum possible and hopefully we will not lose much opportunity.

Basudev Banerji: So, that is what I wanted to ask, present juncture what can be that maximum production from your side, any thought process on that?

Rahul Bharti: It should give us a reasonable increase over the last year. And specifically for these two models, we have tried to step up our production for Baleno and Vitara Brezza.

Ajay Seth: There is a very focused attention being paid on these two models. We are going all out to make sure that whatever numbers we can maximize, we will. To give you any commitment at this stage would be very difficult, because lot of actions internally are being taken by the production team and others to make sure that we can reduce this waiting period to as minimum as possible.

Basudev Banerji: Okay sir. And Gujarat plant is all on its way for getting operational in Q4?

Ajay Seth: That's right Q4.

Basudev Banerji: Okay sir. Thank you.

Moderator: Thank you sir. The next question comes from Mr. Jamshed Dadabhoy from Citigroup. Please go ahead.

Jamshed Dadabhoy: Sir, good evening. Two questions. Firstly, could you talk a bit about your CAPEX and R&D investments this year and next year?

Ajay Seth: Our CAPEX this year will be 4500 crores.

Jamshed Dadabhoy: Okay. And Mr. Seth, could you give us a sense of how this will be split across R&D and the marketing investments, can you give some sort of color? And also how much would be just maintenance CAPEX, because now there is no growth CAPEX with the Suzuki plant coming through?

...

Ajay Seth: Maintenance CAPEX would be about 1000 crores. Lot of the Gurgaon plant and first plant at Manesar now needs refurbishing. So, we will be now required to spend slightly higher in terms of some of these plants which are getting older. So, that will be the number for the maintenance CAPEX and our annual capital

budget as we call it. Then there will be money spent on the new model introduction. So, for all new model introductions, there will be tooling expenses that we will be incurring. That is again a large expenditure. And third would be on marketing infrastructure as you were saying, which would also be in the vicinity of about 1100 crores, it will be largely on stockyards and other infrastructure like spare parts, warehousing, some land procurement that we have talked about earlier. And balance as I mentioned to you would be on new products and tooling and fixtures.

Jamshed Dadabhoy: Thank you. Sir, second question, if you look at the way your sales have been moving, volume growth hasn't been very spectacular and not commensurate with the 7%-8% GDP, but the value growth has been significant. And your average selling price has been going up, thanks to the new models etc. Could you give some introduction on how buyer behavior is changing today? Or, is this just due to the fact that the Maruti customer is just sort of upgrading and moving into the Celerio segment and sort of shying away from the Alto segment? I want to understand, what I am trying to sort of understand is, is your model cycle over the next two-three years, is it in sync with this change in the buyer behavior or do you just think that this is some aberration, given the fact that we have still not seen a major pick up in the first time buyer segment?

Rahul Bharti: Thanks for that Jamshed. When we study or try to understand buyer behavior, we have to clean our data with respect to supply side behavior. So, if for example if we look at the quarterly growth numbers in terms of volumes, we have to eliminate the effect of the fire incident from that. If we look at April and May, I think our average sales volume growth was about 13½%. So, this year looks positive. And in terms of the newer segment that the Indian customer is embracing, I think our product portfolio is a dot on the mark, because all the new products that we have recently launched are doing really well, the premium segment like the Ciaz, the SUV or the crossover segments, Baleno, Vitara, they have hit the sweet spot. So, these segments are performing well. The segments that are not performing well are the small car segments, where we think still the benefits of the economic growth have to percolate to the middle class and the lower middle class of India. And we are waiting for that, but we are hopeful. Does that answer your question?

Jamshed Dadabhoy: Yeah, let me put it another way. What would be the first time buyer percentage on the Alto, Wagon R segment versus say the, Swift and Baleno segment. Would it be significantly different or both would be in the 45% to 50% range?

Rahul Bharti: Of course the first time buyer segment has fallen to some extent, but it would be different for the entry level products to the middle or upper middle level products.

Jamshed Dadabhoy: Is it significantly different? Because, my understanding is that first time buyer, even in the Swift segment is now 40 plus.

Rahul Bharti: There is some phenomena that new buyers are opting for middle segment cars directly, but that is only the kind of customers that we see around us in the metros. If we look at India, a large part of India still goes for cars like the Alto as their first car.

Jamshed Dadabhoy: Okay, I will rejoin the queue. Thanks Rahul Bharti. Thank you Mr. Seth.

Moderator: Thank you sir. Sir, the next question comes from Mr. Jinesh Gandhi from Motilal Oswal. Please go ahead sir.

Jinesh Gandhi: Hi sir. Just a clarification, what would be the loss of production in this quarter,

Rahul Bharti: It is slightly premature to calculate that, because we had preponed the shutdown, the maintenance shutdown. And the part of the shutdown fell in July. So, when you see the July and August numbers, we will be able to find out.

Jinesh Gandhi: Okay. And the second question pertains to the potential GST impact, what is your assessment of the same with respect to beyond the demand and again in terms of the logistics cost?

Ajay Seth: Jinesh, this is a massive subject. I don't think over a call we can explain this. So, when we meet, we can discuss in detail about GST. There are too many things yet to be clarified, but we can discuss that separately.

Jinesh Gandhi: Sure, sure.

Moderator: Thank you ladies and gentlemen, that was the last question for this session. Now, I hand over the floor to Mr. Deepak Jain for closing comments. Please go ahead sir.

Deepak Jain: Thanks to the Maruti management for taking time off for this call. Thanks everybody else for this call. Have a great day.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation. You may all go ahead and disconnect your lines. Have a good evening everyone.

Note: 1.This document has been edited to improve readability.