Transcript

Conference Call of Maruti Suzuki India Limited

Event Date / Time : 27th July 2017, 4 PM IST

Presentation Session

Moderator: Ladies and gentlemen good day and welcome to the Maruti Suzuki India Limited Q1 FY18 post results conference call hosted by Batlivala and Karani Securities. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal for 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. Annamalai Jayaraj. Thank you and over to you Sir!

Annamalai Jayaraj: Good evening everyone. On behalf of B&K Securities I welcome you all to Q1 FY18 post results conference call of Maruti Suzuki India Limited. We are delighted to have with us today the senior management team from Maruti Suzuki India Limited. I now transfer the floor to Mr. Nikhil Vyas to take the proceedings further. Over to you Mr. Nikhil.

Nikhil Vyas: Thank you Jayaraj. A very good afternoon to all of the participants. May I introduce you to the management team from Maruti Suzuki. Today we have with us our CFO Mr. Ajay Seth, Executive Director – Corporate Planning Mr. A.K. Tomer, Senior Vice President Mr. Pradeep Garg, Vice President Mr. Sanjay Mathur from Finance. The con call will begin with a brief statement on the performance and outlook of our business by our Seth after which we will be happy to receive your questions. May I remind you of the safe harbor, we may be making some forward-looking statements that have to be understood in conjunction with the uncertainty and the risk that the company faces and I would like to inform you that this call is being recorded and our 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. Thank you, Nikhil!

Good Afternoon Ladies and Gentlemen.

Let me start my speech by sharing one good news. The Company has moved a step further in enhancing customer experience. Yesterday, the Company introduced NEXA service to enhance the customer experience in service area too. Plush workshops with premium lounges and use of digital technology to enhance customer service and transparency will be the defining elements of NEXA service. The Company expects that nearly 300 NEXA service workshops will be in operation by 2020. I would also like to inform you that the NEXA retail sales channel has successfully completed two years this month. It is now offering five models and having 262 outlets covering 154 cities across India. In Q1, NEXA contributed to 20.3% of our domestic sales.

Coming to the performance in first quarter, the industry posted a growth of 4.4%. The Company could once again outperform the industry and posted a growth of 14.3% during the quarter. The sentiment continued to favor petrol vehicles constituting 62% and 71% of sales for Industry and MSIL respectively.

This quarter also entailed preparation for the transition to GST. The landmark tax reform implemented from July 1, in the country is a very laudable initiative by the Government. By amalgamating a large number of Central and State taxes into a single tax, it would mitigate the ill effects of cascading and pave the way for a common national market. For the consumers, the biggest gain would be in terms of a reduction in the overall tax burden for passenger cars in most of the segments. Effective July 1, we have passed on the benefits of GST rates for the consumers. The Company had helped and ensured that all of its business partners are ready for a smooth transition to GST.

While GST is going to immensely benefit the economy and increase the ease of doing business for companies, in the long run, there was some initial cost associated while transiting. Since the tax credit was not available on certain categories of taxes, there was a cost impact for dealer stock as on 30th June. The Company had to compensate dealers for the tax loss which they incurred on those vehicles. Also, to reduce stock, the Company had to increase sales promotion expenses as well.

Good performance of our models in all the segments has helped us achieve the growth till date. With the recent launch of Dzire, our product portfolio is strengthened further, and we hope to address the needs of various segments like never before.

For the quarter, the Company registered Net Sales of Rs 171,324 million. This is a growth of 16.7% as compared to same period last year. Net profit after tax stood at Rs. 15,564 million, a growth of 4.4% over the same period last year. Growth in volumes, increase in the share of the Company's higher segment models, higher non-operating income and cost reduction efforts contributed to increase in profits. However, the profit was adversely impacted due to increase in commodity prices and higher sales promotion and marketing expenses.

I would now like to invite any question, feedback or comment that you may have.

Thank you.

Question and Answer Session

Moderator: Thank you very much Sir! Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Yes, thanks a lot for the opportunity and my first question is more of a clarification on your comment on the GST compensation. So, if you can just help us understand what has been the various hits, what you have taken which are non-recurring in nature in terms of either compensating your dealers or vendors and also in terms of higher discounts which were kind of required to reduce the inventory pre GST?

Ajay Seth: So as I mentioned to you in the opening speech that there were certain taxes which are not allowed to be taken credit of, so to that extent whatever stocks dealers were holding we had to compensate them for the loss on part of those taxes. The impact of that would be about 50 basis points which is on account of compensation that we have given to dealers on account of these losses that they have incurred on the non-availability of credit. On the schemes, we had to incur additional 30 basis points if you compare with Q4 sequentially because there were schemes that were floated in terms of retail focus and other clearances that we had to do in the month of June.

So there would be a non-recurring impact of about 50 basis point and there is an incremental impact of about 30 basis point which is on account of the sales promotion schemes that we incurred.

Pramod Kumar: Okay and on the royalty front, just wanted to understand was there a lump sum royalty paid as it happens when you launch a new model like Dzire and also related to that is the royalty for Dzire is going to be in the rupee terms going forward, the new Dzire?

Ajay Seth: The royalty bit is still under discussion and once we formally make an agreement, we will come back to you. Lump sum royalty is paid as per the normal scheme, which is associated with all the models so in line with that we would have incurred lump sum royalty which is a very small portion.

Pramod Kumar: Okay and final question Sir, on this move for the marketing side. Given the recent exit of General Motors and there have been media speculations some other brands also kind of re-looking at the India business. Given all that, have we seen any perceptible difference in the way you look at enquiries and conversion rate at your end for the models especially which had an overlap with some of these rivals?

Nikhil Vyas: Pramod this is a very recent thing which has happened in the market, so let us wait for some time before we get some real understanding whether there is any impact on account of this.

Pramod Kumar: Fair enough and thanks a lot. I will come back in the queue for further questions. Thank you.

Moderator: The next question is from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale: Thanks for taking my question. Sir my first question was regarding the commodities. I read that you have seen certain pressure because of commodities as well, how do you see that going forward, I mean are most of the commodity pressures reflected in this quarter and any likelihood of any price hikes to be taken going forward?

Ajay Seth: Commodities have gone up compared to both last year and this time, there has been a significant increase. Also sequentially Q4 to now there has been some increase, so it has not been a substantial increase but there has been some increase especially in area of rubber which has gone up. We are hoping that commodities would be steady to maybe a moderate increase moving forward, we do not expect any significant increase. However one would have to keep watching in terms of what the global outlook is and therefore is there any change in terms of outlook and accordingly prices of commodities. At this point in time, our belief is that it should be more steady and we do not see any exceptional increase in commodities.

Jay Kale: Sir my second question was regarding the retail trend in the market, are you seeing any major differences on the retail trend post GST on any specific models or overall general demand as such? And related to that what would be your fleet sales contribution to sales in say Q1 versus what your FY’17 average would be, because we are hearing a lot of slow down on procurement on that side?

Nikhil Vyas: So regarding your first question the sales trend after the GST, so we have seen that the retail sales in the month of June was high and it looks to be like pre-GST buying. So just after the GST, there was a little slow down in the retail but that has picked up. Let us wait for the sales number release in the next month. We will get to know a better picture there. Regarding your second question on the fleet sales, we have seen some moderation in the fleet sales in this quarter.

Jay Kale: Okay maybe if you can quantify what would be the contribution this quarter versus FY’17 average, any color on that?

Nikhil Vyas: Nearly around 5% is the contribution.

Jay Kale: Okay sure. Thanks and I will come back on queue for more questions. Thank you and all the best.

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

Amyn Pirani: Good evening. Thanks for the opportunity. Two house-keeping questions, could you just quantify the royalty amount for this quarter?

Ajay Seth: The royalty for this quarter is 886 Crores.

Amyn Pirani: Okay understood Sir and Sir regarding the commodity cost pressures, I mean has there been any pricing actions or are you planning any pricing actions to off-set that or at this stage you would have to basically absorb them in your costs?

Ajay Seth: We have always endeavored to kind of reduce any pressures of cost increase through our own productivity and cost reduction programs that we run. So our focus was continued to be in that direction that we run our cost reduction program and productivity improvements so that will be our endeavor during the year.

Amyn Pirani: And Sir just one question, now obviously after GST, the organized used car market obviously has come under higher taxation because of the way the GST rule is applied to them. So in the context of the fact that 30% of demand is upgrade buyers, do you think this is having any impact on (a) used car sales and consequently can it have an impact on the upgrade buyer because he will not get as good a deal as he was getting may be earlier?

Ajay Seth: See it is too early to say but I think to correct your notion, the impact has been different in different states. You know in some states, the taxes have marginally gone up, in some states it has actually come down. So, the impact varies from state to state because now the uniform process is that it is on value add all throughout.. Only thing is that the rates are the normal rates, which is 28% and 43% although industry had made a representation for a more moderate rate which still they continue to represent to the government. So it varies from state to state in terms of what the impact is. I think it is too early to decipher any impact on exchange or sales of second-hand cars, we would watch it for some more time and then come back on this.

Amyn Pirani: Okay. And Sir lastly if you could give us the discounts for vehicle number for this quarter?

Ajay Seth: Discounts in Q1 this year have been at Rs.16,600 average.

Amyn Pirani: Okay, understood. Thanks a lot.

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

Sonal Gupta: Thanks a lot Sir, some of my questions have been answered but just to get a sense I mean how much was the production from SMG this quarter or how much of the volume contribution?

Ajay Seth: 24,000 units is what we got from Suzuki Gujarat this quarter.

Sonal Gupta: And any colour on, so we expect by second half, this should be operating at full capacity right?

Ajay Seth: Yes, capacity is slowly ramping up and hopefully as we go towards the close of the year, we will be I think kind of operating at almost full capacity.

Sonal Gupta: And any indications on Sir which is going to be the next model after Baleno at SMG?

Ajay Seth: It is still being decided internally, not yet concluded.

Sonal Gupta: Okay Sir. Great. Thank you so much.

Moderator: The next question is from the line of Chirag Jain from SBICAP Securities. Please go ahead.

Chirag Jain: Sir just wanted a clarity in terms of the production guidance for this year. In the last con call you had indicated that there is a possibility of squeezing beyond 10% to 12% growth if demand is stronger. So any revisit in terms of the growth guidance, because the production data in recent months have been quite strong and obviously there would be ramp up in the Gujarat plant as you indicated, so just wanted some color on that?

Ajay Seth: We had indicated earlier also that the capacity in Gurgaon and Manesar put together is 1.5 million and Gujarat would give us 150,000 cars this year. Efforts are always made in terms of getting whatever maximum we can from our existing capacities but I think as a general rule we will have to work with the numbers that we are talking about 1.5 million and 150,000 that is the kind of overall numbers that we have under which we are working in terms of our production plan. In case if we can do anything better, we will certainly try and work towards it.

Chirag Jain: Okay and can you just indicate in terms of the second line when this would be operational at the Gujarat facility?

Ajay Seth: It is beginning of 2019.

Chirag Jain: Okay thank you. That is it from my side.

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

Kapil Singh: Hi Sir, firstly I wanted to check this 50 basis points and 30 basis points, which line item have we booked these costing for the dealer compensation and additional spend for marketing?

Ajay Seth: Both of them are part of sales so it will be reduced from the sales as discounts and as dealer compensation.

Kapil Singh: Okay. So the discount number of Rs 16,600 per vehicle includes this 30 basis points?

Ajay Seth: Yes, that is right.

Kapil Singh: Okay. Secondly we have seen some spike in the other operating income so any colour there what has helped that?

Ajay Seth: For operating income there was one time write back as we had some excess provision that we have credit rate of about Rs 85 Crores so that write back had been taken in this quarter.

Kapil Singh: Okay and Sir for the tax rate, even this quarter because the deferred tax is high but our full year guidance has been around 26% so that still holds?

Ajay Seth: I think the tax rates would be, in the last con call we had mentioned that we will be about between 27% and 28%. The tax rate has been higher because recently government has come out with the inflation index which has an impact on the mutual fund. So earlier the inflation index was at 4.5% now it is at 3% so we had to create a one-time deferred tax liability based on the new index that has been given by the government and there is an impact of about Rs 85 Crores on account of deferred of tax that we have paid. So this is one time, so this will obviously not recur but there has also been an impact if you were to compare it with last year on account of investment allowance going away because there was investment allowance on plant and machinery till last year and also the R&D reduction has now been reduced from 200% to 150%. So we believe that a 28% or thereabouts would be more like a manageable effective tax rate.

Kapil Singh: Okay and was there any benefit on account of better forex rates for the quarter?

Ajay Seth: It is about same as Q4, not multiple, negligible.

Kapil Singh: Sir last question, I wanted to check in Gujarat right now the production rate is quite low, so like how will the cost per vehicle at Gujarat evolve over the next one, two years? Do you think we are at a peak right now and it sort of drops in the second half or when the production picks up?

Ajay Seth: See fixed cost anyway will get better as the capacity utilization grows, so when we move to the Q3 and Q4 the capacity utilization goes up, the fixed cost will also improve. Although even now they are working on a very tight schedule and target, we are reasonably okay in terms of overall cost structure but I think as we move towards full capacity utilization, actually depreciation and fixed cost will show some decline.

Kapil Singh: Okay. Because how much percentage vendors are there currently and I think that is also increasing cost right now?

Ajay Seth: So vendors are significantly going up in the next couple of years. There is a comprehensive localization plan actually worked out around Gujarat.

Kapil Singh: Sure Sir. Thanks. That is all.

Moderator: Thank you. The next question is from the line of Pramod Amte from CIMB. Please go ahead.

Pramod Amte: Hi Sir, regarding this merger of your insurance subsidiaries. Can you give a background why it has been done and what is still left on your books to take care?

Ajay Seth: So Pramod, these were insurance subsidiaries which were virtually not doing anything for last few years, so we were earlier operating on a platform of agency business which after IRDA regulations we moved to broking business so we became insurance broking as a separate entity. So, prior to that these companies were inexistent and there were some investments parked into these companies and they were not actually functioning. So therefore there was no point keeping them ideal and we decided to merge them so that is the background of reason for merger of these companies.

Pramod Amte: But if I look at your consolidated numbers versus standalone there was like Rs. 150 Crores difference so are there still some more subsidiaries. You are trying to simplify the structure as you go forward or…?

Ajay Seth: There are other subsidiaries as well which are consolidated so these are only insurance agencies that were there. We also got other subsidiaries which are consolidated. So there are other subsidiaries and associates which are consolidated. So if you want to take the effect of all put together then the number would be much higher. This is only a small portion of it.

Pramod Amte: But you intend to do that or you would like to …….?

Ajay Seth: No we do not intend to merge any other companies. This was only because they were idle and they were not doing anything and they were 100% subsidiary of Maruti so therefore we decided to merge.

Pramod Amte: And second is with regard to other income it looks to be very lumpy this quarter. Any reason why it has been so strong almost a 40% YoY rise?

Ajay Seth: On the operating income we have given a reason of there was a one-time write back of Rs. 85 Crores because there was some excess provision that existed. On the non-operating income, it is largely to do with the interest rate reduction because interest rates fell, therefore the NAVs went up of the existing portfolio and therefore the income grows. So non-operating income will now be largely governed by the movement of the interest rates up or down and that is the broad reason.

Pramod Amte: Thank you Sir.

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

Ashish Nigam: Hi congrats for a good quarter. My question was on the customer profile, what is NEXA and our new models you know done for us in terms of customer profile, so like in the last two three years how has that changed between first-time buyers, salaried class, government employees, business owners, how they all see it, how has the changed with the ramp up of NEXA?

Nikhil Vyas: Ashish with the introduction of NEXA, there is some increase in the additional and replacement buyer.

Ashish Nigam: Okay and first-time buyers, I remember last time you mentioned was 42%-43% of sales. That is still the number?

Nikhil Vyas: No it has increased this quarter so it is now close to around 50% but let me caution you here we have to see how sustainable this numbers are in coming quarters.

Ashish Nigam: Sure. And do all the existing Maruti dealers have a NEXA outlet now?

Nikhil Vyas: Nearly.

Ashish Nigam: And that mechanism of incentive for cross selling etc., also is in place?

Nikhil Vyas: Yes.

Ashish Nigam: Okay, secondly on exports what is the outlook there which markets are the main pain point for us and which are the new markets we are entering into to off-set that?

Nikhil Vyas: See we are maintaining the outlook for the exports of same number, which we did last year of around 125,000 or so and the main markets are Indonesia, Chile, South Africa, Bolivia etc.

Ashish Nigam: Okay so this is flattish growth this year at least?

Nikhil Vyas: Yes.

Ashish Nigam: Okay and in the longer term is there any plan to go into more ramp up in Europe etc., which we were doing earlier?

Nikhil Vyas: Let us first set up sufficient capacity.

Ashish Nigam: Sure. Just lastly just a housekeeping question on our import content right now what are the current direct and indirect import and how much more can it go down given your localization plans?

Ajay Seth: As a percentage of net sales, we would be about as we have mentioned if we were to exclude royalty, we would be about 18% between 17%-18% as import content and the balance is the royalty that we pay in yen end so that is the broad import content that we have. In terms of reduction in import content I think the efforts are always all in terms of what we can do as we continue to do little bit every year but I think the major portion of it is now electronics and hi-tech technology for which as we had earlier also mentioned that it will take some more time. It is not something which is doable in a hurry so that would perhaps take more time so that is where we are on import content at this point in time.

Ashish Nigam: Thank you Ajay Sir and all the best for the team.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Securities. Please go ahead.

Pulkit Singhal: Sir, I was just trying to understand the impact of the Gujarat plant, in fact 24,000 volumes for the quarter I would have imagined some kind of dilutive impact on gross margins but if I adjust for the 80 basis points of one-time impact this quarter your gross margins have actually increased sequentially so I am just trying to understand how did that take place or what is the impact of Gujarat Plant this year.

Ajay Seth: When you are looking at margins, there are a variety of reasons built in into margins. It is just not only the new capacity, it is also to do with what your mix at a given point of time is, what are the discounts, exchange rates all that put together. So it has to be seen in that context and also there is… as I mentioned earlier also that there is always an element of cost reduction that we realize every year and every quarter, so that is also built in to that. So it is a combination of all that. So I think when you look at a bundle of things and you take away this one-time impact then the other factors would have a positive play in the margins compared to that one off impact.

Pulkit Singhal: So I am just trying to understand what will… because it would have been a significant positive impact by these other factors, what would these factors be in this quarter that really helped you?

Ajay Seth: So moderately the foreign exchange rates were a shade better. There would be a cost reduction that we would have add in this quarter compared to Q4 of last year. So that would be on the positive side. The negatives are the compensation that we paid or the higher discounts that we incurred, but these are the negative factors and the product mix if it has any play that has on the margins between Q4 and Q1. So these are broadly the factors and each one of them will have a quantifiable number. At this point in time, those are not carrying these quantifiable numbers, but these are broadly the reasons for movement in margins between Q4 and Q1.

Pulkit Singhal: As we move from 24,000 per quarter to say 60,000 to 65,000 per quarter, which is a full ramp up. What would be the impact on margins? Will it still be dilutive, would it be neutral by then, or does it become positive because it is a much more efficient plant? How does it move?

Ajay Seth: See any new plant that you operate on will have a fixed cost and the fixed cost over a period will start getting amortized, when you start utilizing your capacity fully. So we will definitely like Gujarat plant to be as efficient as our current plants of Gurgaon and Manesar are in terms of the fixed costs. However, since it is a new plant, the depreciation for the new plant will always be shade higher than the old plants. To that extent, there will always be a little bit of difference, but in terms of efficiency we would like both the plants to run parallely in terms of same grounds of efficiency.

Pulkit Singhal: So at what volumes does it become that is it 60,000 or 120,000 a quarter?

Ajay Seth: It is simple. We are operating at close to 100% capacity. So when they start operating at 100% capacity, then we would more or less be comparable in terms of our structures.

Pulkit Singhal: So 100% of the 250,000 phase one or would it be in all the phases…?

Ajay Seth: I am not taking the phase one and the phase two. I am saying okay take a steady state and when on a steady state they operate on a 100% capacity, it will be like to like, but in between there will be glitches because they will ramp up second phase and third phase and thereafter the second plant will come up, so you will have to bear it until such time that you are on a steady phase and then compare like to like.

Pulkit Singhal: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Jain from HDFC Securities. Please go ahead.

Abhishek Jain: Thanks for taking my question. Sir how much UP contributes in overall sales and looking at the current economy change what kind of growth you are looking from this state?

Nikhil Vyas: UP. I do not think we have those numbers with us right now. We will come back to you on this information.

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

Binay Singh: Hi team. Thanks for the opportunity. My first question is on economies of scale. We have talked a lot about Gujarat coming in and how it will dilute margins, but there should be some economies of scale benefit also for you as volumes expand. Could you highlight something on that like if I look at other expenses a percentage of sales, they broadly remain in the same range for Maruti. They are still at 13% plus or so and similarly this quarter, we also saw staff cost rising, so could you address these questions economies of scale and what is happening on the staff side?

Ajay Seth: Binay you are absolutely right. I think you are spot on. As the volumes pick up and you see more top line growth, there would definitely be some advantage that you will get on account of the cost as a percentage going down, so the economies of scale would be more visible as you see higher volumes kicking in both here as well as in Gujarat, so that benefit would definitely be visible. This quarter I think we have had some disadvantage because of the transition that happened due to GST that we were not able to kick in the number of units that we would have liked to kick in. So to that extent I think the benefit would be definitely seen as we move forward if the volumes go up.

Binay Singh: Right and secondly on staff like we have seen staff expense rise sharply on a quarter to quarter is it just pay revision?

Ajay Seth: It is largely to do with the revision that happens every year. So if you were to see last year also it was high in the first quarter and also I think because if the top line goes up then the percentage would look better. This time the top line had not moved up accordingly, the ratio looks a little distorted, but first quarter will normally have because the pay revision happens during this quarter.

Binay Singh: Could you share with us what is your order book now, what are the models, what is the waiting Pan India basis that you are seeing on the key models?

Nikhil Vyas: So Baleno, we have around 16 weeks of waiting and Dzire is also in the similar range and Brezza have some around 20 weeks of waiting.

Binay Singh: Okay so it will be somewhere close to 100,000 plus or so?

Nikhil Vyas: Much more than that.

Binay Singh: Great. Thanks a lot.

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

Jamshed Dadabhoy: Hi, good evening. Sir just one question. I understand a large part of your vendors also would not yet have moved to Gujarat given the production and capacity is where it is, so I guess this hark back to an earlier question that once you have a fully functioning plant and your vendors have moved and the logistics cost and in state tax benefits, etc., all in place how would you look at your margins moving and when we would really see that beginning to come through?. Would it be in FY2019, FY2020?

Ajay Seth: So Jamshed the whole idea is that when you are scaling up Gujarat you are also scaling up the localization in Gujarat. Vendors would start moving in over a period of the next three years and then we believe that we will have significant amount of presence of vendors by that time for all models, which will be made there. So for any new plant and new location normally it takes that much of time before you get into a steady state and you can compare really the margin profile of Gujarat with let us say Maruti or with anyone else and as I mentioned earlier till we get into that steady state because in between there will be lot of ramping up of capacities, first phase, second phase, so once we get into that steady state and I think we will (a) get economies of scale, (b) get the benefit of localization and also be as cost competitive as we are here.

Jamshed Dadabhoy: Just to follow-up on this import content Ajay you mentioned at 17% to 18% of sales, direct plus indirect contribution and then if you add royalty, you will be closer to 23% to 24%, I thought the direct plus indirect content had fallen about a year to year and a half about 12% to 13%, so is there additional new content, which has come in?

Ajay Seth: No! It was always around this number of 16% to 17%. It has not fallen because I think the number you are mentioning in only indirect because there is also a 4% to 5% direct import content. So maybe it is either that you have the wrong number with you. We always had about 16% to 17%, so it has not moved in the last few years and the reason we have been giving is that its high-end technology in electronics, which are the last part of it and our endeavor now is to crack these areas over the next few years.

Jamshed Dadabhoy: Your capex is still Rs.4000 Crores for this year?

Ajay Seth: Our capex this year would be Rs.4500 Crores.

Jamshed Dadabhoy: Thank you. That is it from me.

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

Jinesh Gandhi: Hi Sir. Congrats on a good set of numbers. I wanted to understand in terms of capex what would be for first quarter?

Ajay Seth: Capex of first quarter will be proportionate to the number that we have given you Rs.4500 Crores. It will be a shade lower than the Rs.1000 Crores, so it is about Rs.900 Crores.

Jinesh Gandhi: Secondly wanted to clarify on GST impact you said 30 basis point impact on promotions and 50 basis point impact from compensation to dealers and both of them are nonrecurring right?

Ajay Seth: See discounts, I cannot say whether it is recurring or nonrecurring. For sure 50 basis points on compensation is nonrecurring. However, since we had to up our schemes because of the retail focus and clearing stocks, so therefore June actually was much higher than what we had normally envisaged, so it is difficult to say whether 30 is nonrecurring although there is a load of sales promotion in that month, which could be nonrecurring, but we will have to see as we move along in terms of market demand and how it pans out.

Jinesh Gandhi: MD in one of the media interviews had indicated that we can grow at about 15% in FY2018 based on the current capacity and whereas we are indicating about 1.65 million as what we can do, so what number we should work with?

Ajay Seth: The numbers that I think we are saying is based on what the facts are at this point in time in terms of capacity. We have always kept a caveat by saying that our endeavour is to do whatever best we can given our constraints, but as of now the maximum capacity stands at 1.5 lac and 150,000 for Gujarat, Whatever maximum can be extracted out would be seen.

Jinesh Gandhi: Okay understood and Sir last question on depreciation, so now the reported depreciation should it fall considerably in coming quarters considering that Gujarat depreciation will be part of RM, so would we expect this number to come down quite substantially?

Ajay Seth: We have a capex of about of about Rs.4500 Crores. This will be on various new models and on R&D and other infrastructure relating to marketing. So therefore, I think one will have to take the additional capex and depreciation on that plus what actually gets depreciated in the long run, so I do not think there will be much fall in terms of the number of depreciation till such time there is investment in these areas.

Jinesh Gandhi: Understood. Okay Sir. Thanks and all the best.

Moderator: Thank you very much. Ladies and gentleman that was the last question. I now hand the conference over to Mr. Annamalai Jayaraj for the closing remarks. Over to you Sir?

Annamalai Jayaraj: Thank you everyone. On behalf of B&K Securities, I would like to thank the senior management team from Maruti Suzuki for taking time out to discuss the quarterly results. Thank you all for joining us.

Moderator: Thank you very much members of management. Ladies and gentlemen on behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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