Q1FY21 – Investor Conference Call

July 29, 2020

Moderator: Ladies and gentlemen, good day and welcome to Maruti Suzuki India Limited Q1 FY'21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nikhil Vyas. Thank you. And over to you, sir.

Nikhil Vyas: Thank you, Janis. Ladies and gentlemen, good afternoon once again. May I introduce you to the management team from Maruti Suzuki, today we have us our CFO – Mr. Ajay Seth. From Marketing & Sales, we have Member Executive Board -- Mr. R S Kalsi; Executive Director (Marketing & Sales) -- Mr. Shashank Srivastava. From Corporate, we have Executive Director -- Mr. Hideki Taguchi; and Executive Vice President (Corporate & Government Affairs) – Mr. Rahul Bharti. From Finance, we have Executive Director – Mr. DD Goyal; Executive Vice President -- Mr. Pradeep Garg; and Vice President -- Mr. Sanjay Mathur.

The concall will begin with a brief Statement on the Performance and the Outlook of our Business by Mr. Seth, after which we will be happy to receive your Questions.

May I remind you of the Safe Harbor! We may be making some forward-looking statements that have to be understood in conjunction with the uncertainty and the risks that the company faces. I also like to inform you that the call is being recorded, and the transcript will be available at our website.

I would now like to invite our CFO – Mr. Seth. Over to you, sir.

Ajay Seth: Thank you, Nikhil. Good afternoon to everyone. Hope all of you and your families are keeping in good health. Owing to an unprecedented global pandemic of COVID-19, it was a unique quarter in the company's history wherein a large part of the quarter had zero production and zero sales in compliance with the lockdown stipulated by the government.

Production and sales started in a very small way in the month of May. The company accords utmost priority to the health, safety and wellbeing of all employees and associates across the value chain and particularly its customers.

The company has implemented stringent controls which are over and above the government's stipulated guidelines to prevent the spread of COVID-19 besides continuous education is being imparted to the workforce to absorb high degree of self-discipline. They are regularly being reminded of not letting the guards down at any moment, whether at office or outside. The company has adopted work from home practice wherever possible.

Taking these measures as base, further measures specific to vendors and dealers have been identified and implemented at their facilities to safeguard the employees. For ensuring the safety of customers inside the showroom, the entire customer journey has been redesigned to ensure minimal physical touch points and maximizing the use of digital interfaces to ensure contactless operations. The company is extensively using its flagship services on wheels program to provide vehicle repair services at customer's doorsteps.

Sudden halt of business with start of lockdown put significant pressure on cash flow of some business partners like suppliers and dealers. The company provided them with cash flow support to ensure that they are able to pay salaries to their employees and meet their obligations. The company is also facilitating the suppliers to get access to attractive financing schemes for managing working capital.

After lifting of lockdown, fortunately, we saw some demand recovery. Accordingly, the company focused on clearing the stocks at the dealerships and maximize the retail sales. The company has forged tie ups with banks and launched "Innovative Retail Financing Schemes." However, the biggest challenge is to ramp up production of vehicles amid shortage of manpower and local lockdowns being observed in states or cities affecting the supply of components and delivery of vehicles at dealerships. It is too early to judge whether demand is only pent up or it has really started to recover.

Investors can also feel proud that your company was able to help in mass production of ventilators, PPE and masks to the expectation of the Government of India despite zero prior experience.

Coming to the highlights of Q1 for the Financial Year 2021, the financial results of the quarter are not comparable with that of the same period previously and should therefore be seen in the context of the ongoing COVID-19 pandemic lockdowns and restrictions required by government for safety.

The company sold a total of 76,599 vehicles during the quarter. Sales in the domestic market stood at 67,027 units and exports were at 9,572 units. During the quarter the company registered net sales of INR36,775 million. The company made a net loss of INR2,494 million in the quarter. It was partially offset by lower operating expenses and higher fair value gain on the invested surplus.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Firstly, I wanted your views on demand outlook, if you could cover whether what kind of enquiry levels are we seeing currently and how are the next few months looking like? I know you mentioned that we cannot say whether current demand is pent up or not, but if you have done any analysis on that, that would also be helpful.

Shashank Srivastava: Thank you for the question. If we see the parameters of consumer demand as reflected in enquiries and bookings and retail, I would say it is around 85% to 90% of the pre-COVID time.

This is as far as the consumer demand is concerned in the first three months that we have operated in this year. As regards the future, I think that is much more a difficult question. And obviously the steady state long-term demand depends on the fundamentals of economy. Because the automobile sale is related to income level. Also, it is related to the sentiments because it is a discretionary purchase. And I think going forward much will depend on how the COVID situation evolves. So as I keep saying that you could see a vaccine upside or you could see a virus downside. So we are keeping our fingers crossed about which way the COVID thing will move. And I think it is so difficult therefore to make a clear guideline or clear prediction of what the demand is going to be. However, having said that, the bounce back has reflected in the consumer parameters I just mentioned, has been encouraging and we are looking forward with a lot of optimism.

Kapil Singh: Secondly, just on financials to Mr. Seth, I know this quarter is not really comparable, but still because we have to look at what we can see in terms of numbers. So if I look at raw material per vehicle, it has been a sharp increase, up to 3,80,000 compared to 3,30,000 in the previous quarter. Could you give some color here, what are the factors that have led to this and on a normalized basis has there been any cost increase or it is more or less at the same level as previous quarter?

Ajay Seth: Raw material to net sales in the normal course would be about the same level. I think this quarter was an exception for a couple of reasons , one is that the inventory levels went down significantly whatever the stocks that we had from March to now, and therefore, there was a fixed costs incidence hit that we take once in a while. So, this will get normalized which was I think over 110 crores. So that in a small base of sales value translates to over 3.5%. So that was one reason. And second is that if you look at the discounts typically are amortized over the wholesale numbers. Wholesale numbers are much lower than the retail numbers and therefore discounts on the face of wholesale numbers looks much bigger. Discounts on an average this quarter were a shade over Rs.25,000 whereas if you were to convert that into retail number, they would have been much below Rs.20,000. So I think that was the other aberration we had. So, if you take away these two exceptions, then material cost-to-sales ratio is pretty much the same as it was sequentially Q4 to Q1.

Moderator: Thank you. The next question is from the line of Yogesh Agarwal from HSBC. Please go ahead.

Yogesh Agarwal: Just a couple of questions. Shashank sir, you just mentioned, the bookings are back to 85%, 90% and we know parts of India still lockdown and there is a financing issue as well. So, like-to-like in areas where there is no lockdown and financing is easier in certain categories, is the demand better off than last year in that sense?

Shashank Srivastava: Even in June, if you see there were in some states where actually there was a positive retail over the previous year. So you are right there it is varying hugely across the states. The states which seem to have been affected currently most in the negative sense are Kerala, Maharashtra and Tamil Nadu.

Yogesh Agarwal: And then related to that, as you said, pent up demand or not is tough to guess, but we are also seeing a very tight second hand car market. So, does that mean that a large part of it is first time buyers today which means they are incremental and when the market softens for second hand market and obviously the replacement demand will come back as well, so it will all add up in the coming months hopefully?

Shashank Srivastava: So you have to distinguish between two types -- One is the pre-owned car market and the replacement buying because the replacement buying affects the supply of pre-owned cars whereas on the demand side, there is a clear deflection that the demand for pre-owned cars has increased. The supply side, of course, is the issue at this time. So the problem is it is not selling, it is about buying. And replacement buying is coming down because we believe consumers will hold on to their vehicles a little longer than what they have been in the past before they upgrade to a bigger or a better vehicle. So, I think you will see both, demand going up for pre-owned cars, at the same time replacement buying coming down. And that is what we see right now in the current demand scenario. As far as your question about the first time buyer is concerned, yes, because the replacement buying will come down there will be an increase of course in some additional car buying. We do expect that the reasons for buying the car purchase is its functionality, would probably take precedence and that reflect in the increased first time buyer. It sort of reflected in the current data of the last three months that we have.

Yogesh Agarwal: Ajay sir, just quickly on Toyota relationship, can you provide some update in terms of both exports potential and then in India in terms of model transition?

Rahul Bharti: On exports, fortunately, a lot of countries are coming out of their lockdowns and we are looking at this market also aggressively. The government is also ambitious about exports. And at least in the medium-term, we are quite ambitious about our exports. To your other question in India in terms of model transition, whenever we have any such new model plan, we will disclose it at the right time. And at any point of time we always have new models in the pipeline. What I can also mention to you that in exports the tie-up with Toyota we help, because we will get much deeper market access, particularly in Africa.

Moderator: Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Sir, my first question pertains to the downtrading trend in the market. There has been a strong belief that the prices will revert and a lot of customers really looking at their purchase decision and buy cheaper cars instead of what they wanted to buy. So based on the data you have for the last few months, what are the draft trends emerging -- are we seeing more demand for Altos and Wagon R or are you seeing massive variant level slippages from ZXI to LXI or VXI or something like that, if you can share some color there?

Shashank Srivastava: So you are right. The current data in terms of the enquiry levels does indicate that there is uptick in the demand towards the smaller cars. That is I think also intuitive and has been also sort of reflected in our consumer research. Having said that, we have to see the steady state what would be the demand patterns likely to be because it is also true that in the past, we have seen when the when consumers revert to the original state, the trend in the last few years have been towards the SUV type of vehicle. So I will say both. At this moment, the data does suggest that in terms of inquiries, the percentage of inquiries for the small cars seem to be higher than the previous years. Just for information, it is around 65% against 55%, 56% which we traditionally had in the past.

Pramod Kumar: How much of this would be because the largest markets are virtually shut, they are not kind of operating at that level because people are working from home, how much of this has become that element? And would you see this ratio reverting to the normal levels once the largest cities open up?

Shashank Srivastava: So I think it is a wider question because part of the reason for telescoping of demand downwards is not necessarily the lock downs or the thing but also probably because the income levels expectation for the future seems to be a little lower for the consumers, whether it is in terms of their businesses or in terms of their salaries or in terms of employment, etc., As far as the number of outlets are concerned, the number of outlets which keep opening and closing are pretty much changing every day, because of the local lockdowns being enforced by various state governments in different districts. So, at one point of time, we had almost 91%, 92% of our outlets, which are about 3,080 outlets, of those 91% 92% were open, but it keeps varying, and in fact, on weekends, there are some 10-states who have imposed weekend lockdown, so then the number varies. If you are looking for a percentage of showrooms which are open, it is varying between 81%, 82% to 91%.

Pramod Kumar: The second question is for Ajay sir. As the old adage goes, "Never waste a good crisis" and we are clearly in mid of a crisis. And given this what is the Maruti management doing in terms of any big initiatives to lower its fixed cost intensity, because, if you look at the P&L of Maruti the for the last five, six, seven years, we have seen massive surge in some of these cost centers like marketing and advertisement and some of the other expenses which have become fairly fixed and outrun the revenue growth in the last six, seven years, which has increased the breakeven levels for the company. So are we doing something which is structural which could reduce the fixed cost intensity of the business?

Ajay Seth: So, we are working on two parts -- one is that we are definitely working very hard on the fixed costs. You have seen that this quarter we have worked hard in terms of reducing costs, some of them are discretionary, which we have deliberately reduced and others are various areas where we have worked very closely to see how we can bring the cost down. So the focus is to bring the fixed costs down throughout the year. And there are targets that we have for all the verticals. We are doing that in a very harmonized manner with all the concerned verticals, this is one part. On the other side, we are also working on the material cost side, where we are looking at more rapidly localizing the imported components and second is how do you further bring the model costs lower by having focus on the model cost down reduction programs that we run. So, I think these are two areas we are working in a very focused manner and we do recognize and realize that in a crisis or a situation we need to be very alert and be very careful about both variable as well as fixed cost.

Pramod Kumar: Finally, dealership franchise is one of the best in the industry by far, but looking on the P&L of the company, if you can shed some color on the financial position of your dealers and suppliers in the current environment, and what is Maruti doing to support them in this particular tough time? And Shashank related to that is, would you expect a reasonable churn or shutdown of competition dealerships, especially the smaller brands, because of what the dealerships are going through, broadly the industry level if you can provide color on that?

Ajay Seth: See, we are keeping a very close watch on all our dealerships ever since the pandemic happened and even before that. We have a concept of balance scorecard of a dealer where we keep monitoring his performance on all parameters including his financials. And, in fact, we have also provided help to dealers during this pandemic by releasing their advances in much earlier and ensuring that they have adequate funds. We have also given them interest subsidy where they are required. Further, we are working with banks to ensure that there is no stoppage of their facilities both working capital as well as the inventory financing and on the retail side. I think Shashank already mentioned that we are working with the banks under various schemes. So, I think on the dealer side, we are at the moment pretty much okay. There will be of course few dealers who will have problems which I will ask Shashank san to mention, but overall the dealers depending on largely through the workshop where the load now is coming back and I think the revenue that they earn from there is pretty sizable because they are all large dealers and they have reasonable share of business. We do not see such a problem with our dealers compared to what it could be otherwise with other players of competition because we are talking of large revenue coming, not from the sale of cars, but from the workshop and other parts of business that they do which is True Value or insurance and financing, etc., But I will ask Shashank san to supplement what I have just said.

Shashank Srivastava: I think I will add on to what Seth sir said. We have a very robust model for profitability for the dealer. That has also reflected in the fact that if you see the last three years, according to the FADA, there have been about 370 dealers were closed out of which Maruti had I think only 14. So that is a very good sign as far as profitability of Maruti Suzuki dealers is concerned. And we have a very robust system where it is not the sales revenue alone, but we have nine revenue streams, some of which has been mentioned by Seth san, including the workshop, the body shop, the insurance, the finance, the extended warranty, the accessories business and so on and so forth. And as far as the support to the dealers in this thing, you are right, there would be stress, especially cash flows, especially when there was no retails in April and half of May, Seth san mentioned about the transfer of funds like accumulated reserve funds, etc., scheme payout, also we had given some inventory support both for the vehicles as well as for accessories and also for True Value cars. So, I think overall we have made sure that the dealer remains profitable and going forward we will continuously keep track of this aspect which would surely arise when the volumes come down. So, we are very confident that we will be successful in keeping the dealers strength especially the financial strength quite intact. Thank you.

Moderator: Thank you. The next question is from the line of the next question from the line of Raghunandhan from Emkay Global. Please go ahead.

Raghunandhan: Firstly, for Q1 FY'21, how has been the industry shift towards petrol vehicles -- has it reached 85% level at which Maruti can sustain 50% overall market share despite being absent in diesel vehicles?

Shashank Srivastava: While the official SIAM figures are not yet released, but we have a very good idea of what the diesel ratios are. So for the industry, it is now about 20.6% in Q1, remember last year it was 29.5%. There seems to be a downward shift. Maruti, of course, at zero percent because we do not have diesel. And as far as competition is concerned, they are at 36%. So overall there has been a reduction from 29.5% for last financial year to 20.6% in this quarter. I do not know the calculation of that 18% or 16%, which you made for that 50% market share, but as far as retail is concerned, the market share for Maruti in Q1 was slightly above 52%.

Raghunandhan: My second question was on RM cost. RM cost per unit was on higher side. Would Gujarat plant depreciation also be one factor contributing to this increase?

Ajay Seth: Gujarat depreciation is part of the manufacturing and other costs. It is not combined with the material costs. The other fixed cost of the Gujarat plant will go to the material cost, but depreciation is a lease expense, which get merged with the manufacturing and discretionary expenses.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: I have two questions: Firstly, on the financing environment, if you could speak about it, is this whole moratorium issue creating a problem for people to access financing? And also, I do notice that you have done a lot of tie ups on the financing side. So, how has been the response or is that clearly helping in terms of enable the financing?

Shashank Srivastava: So, as regards the financing, there are two parts to it. One part is relating to the inventory financing which dealers offtake from Maruti Suzuki and the other part is of course the retail financing. For retail financing, we have as you rightly pointed out, now collaborating with various banks for different types of flexible schemes which consumers have been demanding post this COVID. And flexibilities in terms of initial down-payment being low or such scheme as a step up EMI payment scheme, where initially you pay less EMIs and later on when your income levels are restored or you are feeling more confident, you have a higher EMI. We also have schemes like the "Balloon Scheme", where a large portion of the loan amount is actually towards the last few EMIs. As regards the bank's lending, the interest rates have come down in response to the repo rates which have come down over the past few months, but not as much as we would have thought they would. But nevertheless it is helping because although the banks are relooking at the credit ratings of the consumers once again because probably of this COVID situation. But, in terms of the penetration of the finance, there does not seem to be any difference at the moment. We see the penetration somewhere between 78% to 80% which is normal percentage of penetration across the last few years.

Gunjan Prithyani: The second question I had was on this subscription service foray that you made. If you can just talk us through it, what is the thought process and how we are approaching it?

Shashank Srivastava: Again, the subscription process or the demand for subscription has been increasing in the last few years. Of course, it is at a very low level at the moment, but post COVID we are expecting when people are shunning shared mobility as also public transport and the demand for personal transport increases, one of the very good options is subscription. And that is the thing which we are doing a pilot in two areas -- one is Bangalore and the other one is in Gurgaon and Manesar. So, there we have found some very good response. We started it just a few weeks back and I think going forward we do hope that subscription will also become a pretty big business because we are doing it on a digital platform along with one of our partners, and the way we have seen the enquiries and the conversion now coming through I think it can be a significant game changer going forward.

Gunjan Prithyani: The inventory level you did mention has come off very meaningfully. Is there a number that you can share?

Shashank Srivastava: I think the industry levels are at around 170,000 according to our information, you can give a few hundred here and there. The March inventory level for the industry was 250,000 approximately.

Gunjan Prithyani: For Maruti, if you could share?

Shashank Srivastava: For Maruti, it is roughly about 80,000 inventory at the end of June.

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

Pramod Amte: This is with regard to the diesel segment. Wanted to know if you have done some consumer survey in terms of when the customer comes to look out for a deal with you and when he does not find what his behavior is, does he completely shift over to the competition, what proportion and how much you have been able to convert? And second, linked to the same, how do you look to address this issue in the short to medium term?

Shashank Srivastava: Just a brief perspective, actually, if you look at the diesel fuel price compared with the liter of gasoline, these prices have been converging dramatically actually. Remember, there were about Rs.32 difference six, seven years back. Last year, it was about Rs.7.80 or something and now in some states like Delhi, Goa, Gujarat, Jharkhand, Pondicherry, Odisha, the diesel and the petrol prices are extremely close and therefore now it does not make economic sense to have a diesel car if the criteria is running fast because the running cost is roughly similar about Rs.4/Kms for both. And secondly, the initial price which you pay for a similar type of petrol vehicle is now ranging between Rs.150,000 to Rs.200,000. So, with this large difference in acquisition cost and a very low difference or none at all in the running cost, there is no economic logic for a diesel vehicle. And that is pretty clear from the diesel percentage which we have seen decrease especially in the smaller car category where they have now decreased dramatically to less than 5%. Of course, there are some segments like the mid-SUV and above, where the people are still looking for some amount of diesel, because there the preference seems to be based on torque requirements rather than on economic requirements. And that is why we have said that Maruti Suzuki is also looking as far as the larger diesels are concerned very closely to evaluate whether it requires to be present in the larger diesel category.

Pramod Amte: And second one is, do you see any change in consumer profile as the economy is opening up in terms of when you say compared to the earlier days, the demand record is almost 85%, 90%, have you seen self-employed or corporates or who are the ones who are coming back in a bigger figure in the customer profile?

Management: Yeah, I would just say that in terms of the profiling, maybe the salaried percentage has gone up roughly from Maruti's perspective because we have some detail data about our consumers. So our data point suggest salaried customers going up almost 50% from the 45% they were earlier. And the other categories like self-employed it is more or less similar. Business customers come down a little bit, and government salaried customers which is part of that 49% that I was referring to gone up slightly. So the average MHIs has, come down a little bit, but I think it is different for Arena and for NEXA. There, we do not see that it is statistically, significantly different.

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

Jinesh Gandhi: You indicated retail were substantially higher in this quarter. So, as against domestic car sales of 67,000, what would be the retail numbers?

Shashank Srivastava: The retail is around 119,000.

Jinesh Gandhi: And secondly, on that beyond the breakup of salaried employees and that way, what will be the share of first time buyers, given the expectation of the shift towards private transport?

Shashank Srivastava: Share of first time buyers, as I said mentioned earlier, has gone up for us by a substantial 5.5 percentage points.

Jinesh Gandhi: And the second question is to Mr. Seth. Sir, we have seen substantial increase in realization simply dividing net operating revenues divided by total wholesale, what would have led to this – are we seeing substantial increase in spare sales or any non-vehicular revenues which is driving this?

Ajay Seth: Not really, I think it is the mix impact, so a particular mix that you sell in a quarter, and this is not really comparable this quarter because the size is so small that it depends on what cars have been sold higher than what cars, so, it is not giving you a really meaningful ASP for this quarter. I think it would be more relevant to see the full year.

Jinesh Gandhi: Can you share export revenues in this quarter?

Ajay Seth: Export revenues are Rs.461 crores in this quarter.

Jinesh Gandhi: And lastly, if you can share the production side, how are we placed now in July current and what are the plans for ramp up and any bottlenecks which you see?

Rahul Bharti: So, we are currently doing a run rate of about 4,000 plus per day. And currently, because of increased incidence of the infection in Gujarat, we are only running Gujarat plant from a single shift. Starting mid-August through September maybe first half, we plan to open the second shift in Gujarat of course subject to a lot of enabling conditions like availability of manpower, like the infection should remain checked. So if we add a second shift in Gujarat in September we should be able to add about 900 per day more. And as of now, we are not limited by demand, we are limited by supply. So our effort is to increase supply. We also have to be mindful that there are a lot of local lockdowns across cities or states of different kinds being imposed all over the country. So our vendors are located in about 46-districts over nine states. And sometimes they witness these lockdown. So our strategy is wherever the vendor is, at whichever point of time he is, let him keep producing to the maximum and keep stocking, we never know when the lockdown will hit him. So at least the stocks and the inventories will help during such lockdowns. So that is the strategy that we are adopting, but it all depends on so many factors, particularly the growth of the infection in the country and whether it remains in check.

Jinesh Gandhi: This 4,000 per day is including Gujarat, right?

Rahul Bharti: 4,000 plus is total, Haryana plus Gujarat. And if we are successfully able to have a second shift running in Gujarat, starting the second half of August through September first half, then we should be able to add about 900 more.

Jinesh Gandhi: Any sense what was the production at Gujarat in 1Q or supplies from Gujarat in 1Q?

Rahul Bharti: First quarter is a highly misleading figure. It all depends from the start date. And it depends on how many days we took to just establish protocols. So, even after the plant started, almost a week to two weeks was spent in establishing the safety protocols and all the systems that had to be in place, training of people. So, Q1 would not give a right picture. The current rate from Gujarat is about 900 plus per day.

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

Amyn Pirani: My first question was actually on the financing tie-up. But just trying to understand, what is new in these tie-ups, in the sense that I am sure that for a Maruti customer, most of the bigger financial institutions would already be empaneled. So is there some kind of like a comfort or a subvention or something else that Maruti is doing with these financiers, how does the tie up work for you on a commercial basis?

Shashank Srivastava: There is no subvention first of all. However, it is not correct to say that these schemes were available in the normal course as well. So while the different banks might have been doing retail financing with us, does not necessarily mean that they were offering these flexible schemes earlier and they were not, including, for example, flexibility in terms of down-payment or even in terms of the percentage of the on-road price financing. So I think those are things which come out because together with the bank, when we discuss with them, we make them realize that this is the consumer requirement. And that market input or the consumer insight I think is very essential when it comes to those good bank, who listen to the consumer requirement and tailor-made their schemes accordingly. That is what you have observed in the last three months with those special schemes that we have floated across many banks with our customers.

Amyn Pirani: You talked about the fact that discount per vehicle increased because of the mismatch in wholesale and retail. But if we were to look at like-to-like model level discounts, would they have come down in your opinion or they have remained stable, how would that be?

Shashank Srivastava: Of course, it depends, remember, from geography-to-geography, and it depends on model-to-model, but generally speaking model-to-model it would have come down.

Moderator: Thank you. Next question is from the line of Rakesh Kumar from BNP Paribas. Please go ahead.

Rakesh Kumar: My first question is to Shashank. Last quarter, you have said that it is a little early to call out trend. Now, with the advantage of some time behind us, can you share some of the broader insights, your consumer research is suggesting, some of it you talked about around downtrading and all, but beyond that, what are you observing, how the sales pattern in after-sales services like spare parts, is that similar to how the vehicle sales is happening and which are the most impacted segment of consumers or any other area which you have noticed is worth mentioning?

Shashank Srivastava: I think largely everything follows from those enquiries and bookings that we get for new car sales. And when we have the retail, we do have the business for accessories, we also have the service of the vehicles. Servicing of the vehicles of course has come back very strongly. The only difference between when the local lockdowns happen and many of the workshops get closed, then it is a little different from sales because sales you can do a retailing, maybe the next day, but in service, the capacity, once locked for that day gets lost. So, even if your customer comes the next day, then obviously you have customers of the next day plus the customers of the previous day. So, there seems to be a more effect there. However, it has been a strong bounce back and I mentioned that. And on the first part of your question about the broad customer, customer behavior will change. And of course, I mentioned about the down telescoping of demand. And also the first time buyers getting increased, the functionality buying going up, we have also seen people sort of gravitating towards the more established brands like Maruti Suzuki, for example, because when the market becomes a little uncertain the consumers become less experimentative. That is also something which we have observed. Of course, we also have observed that while the replacement car buying has come down, the additional car buying is going up as also the first time buyers and the reason there is people are preferring personal transport and sort of avoiding public transport. So, those are the other trends which we have witnessed. Apart from the general trend, of course, that is in line with the health consciousness regarding the COVID, people are preferring to go through the digital route for most of the transactions.

Rakesh Kumar: My next question is just an extension of that. So, based on the trends which you have noticed so far, what would be your best estimate for the festival demand which is upcoming, not quantifying directly, but would it be higher than last year similar or lower, essentially, how will you be preparing your supply side, of course, keeping the unknown unknowns aside, how will you be looking at the festival demands coming today?

Shashank Srivastava: So, as I mentioned, I think the first part of this discussion or question-answer session, going forward a lot will depend on the COVID sentiment, we really do not know which way it would move. So, suppose you say the vaccine is discovered tomorrow, fine, then the thinking becomes totally different. Or if there is a second wave of virus, then the thinking becomes totally different. And long term of course, it depends on the fundamental of the economy. Having said that, the reason why festival demand always seems to be better is because car buying being a discretionary purchase requiring positive sentiment, during the festival season, everybody seems to be having a more proclivity towards expenditure. And that is what is spurt in demand in the festival generally. So I am not sure, and I will still maintain that I will not take a position on that bow much will it increase. But leave aside, if everything remains the common, of course, the festival does bring in positive sentiment

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

Binay Singh: Just like you mentioned that in the near-term production is a problem. Do you think discounts further trending down in July versus the level that you saw in June?

Shashank Srivastava: Yeah, I would say again, with the caveat that depends on geography and models. But generally speaking, July discounts are lower than the Q1 discounts.

Binay Singh: And secondly, Maruti has sort of one new model a year launch timeline. So, a) are you remaining committed to that? And b) because of COVID, is there any change in products strategy that you are planning?

Shashank Srivastava: Actually, product plan in auto industry is actually made well in advance because there is a period of incubation of three to four years before a new car is launched. So, those launch plans or the development work does not get really change dramatically if there is a disruption in between for a couple of months as we have seen. What does get disrupted probably some development work which is possible to be made up in time later on. As regards the new car introduction, we are launching the S-Cross with the K15 petrol engine which is extremely powerful and very smooth and a sophisticated vehicle which we will be launching in the first week of August. Beyond that, I will not be able to give you the specifics of our product plan for the future.

Binay Singh: And just last thing on the longer term on the product side, we have seen SUV as a percentage rising. So would it be fair to assume that will be one of the key focus areas in your product strategy over the next three years or so?

Shashank Srivastava: As you know, we keep looking at opportunities and study different segments, the potential, that is the reason why we are able to maintain our market share as we have done in the past introducing some very successful models at times when people said, why would the Maruti Suzuki bring this vehicle for example, Swift or Baleno or for that matter, the Brezza, the small SUV or Ertiga, which was the first affordable MPV in India. So we will keep looking for those opportunities. Yes, some of the opportunities and the trends which you are saying for the SUV does exist. We keep watching and at appropriate time, we will take suitable action.

Moderator: Thank you. We take the next question from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Could you give us a sense of like for FY'20 what was the share of industry demand coming from top-10 cities and 11-to-20 cities?

Shashank Srivastava: Industry contribution in the top 10 cities for 2019-20 was 36%. 11th ranked to the 20th ranked is 12.1%. From 21 to 40 cities 14.2% and for the rest of the cities is 37.6%.

Sonal Gupta: And related to that, given that these markets would have been more impacted by the shared mobility, how do you see these markets sort of on a more normalized basis going forward, do you see a big bounce back in demand from these markets?

Shashank Srivastava: Even last year when the market went down, there was a thought that it is because of shared mobility, the opinion seems to be divided amongst the industry people whether shared mobility was really the cause. But we think it was the cost of acquisition more than the shared mobility thing. The shared mobility percentage is still small. And going forward, I think post-COVID, we would expect shared mobility actually to decrease dramatically as people shun public transport and shared mobility in favor of personal mobility. So I think going forward, it would have even probably a lesser effect in the short run. Long-term effect, yes, people do tend to revert back to the older method. At that time, I think the debate will start again what will be the effect of shared mobility on the auto demand.

Sonal Gupta: You also mentioned that we are seeing a shift towards a good trend in terms of use car market. So could you give share some numbers around that, and what sort of increase have you seen in used car prices, is there an increase in used car prices as well, any thoughts there?

Shashank Srivastava: One, I think it is too early to get to the trend; however, as I mentioned, on the demand side, there seems to have been increase because we look at parameters like enquiries. Big cities have been doing pretty well in the pre-owned car market in line with consumer research data is also with the logic and intuition which we can sort of experience regarding demand towards the use car market. However, as I said earlier, on the supply side, there seems to be an issue because people are holding back to their older vehicles, which means that there are fewer vehicles to buy, to be able to be refurbished and sold as pre-owned cars. So I think that is a supply side issue rather than the demand side. Demand side as reflected in terms enquiry seems to be pretty strong. On the other hand, the replacement buying has actually dropped, so for Maruti Suzuki, generally it is around 25%, 26%, in the first quarter, it was about 16% to 17%.

Sonal Gupta: How are we seeing this share of rural now and could you give us a sense of what is the profile of customers on the rural side?

Shashank Srivastava: Rural markets as we said have been bouncing back a little bit more stronger for reasons because the rabi crop has been pretty good with a record crop produce, kharif crop sowing has been also very good; 20% more than last year, at the same time, the COVID sentiment is a little less negative, because most of the hot spot areas are in the urban areas. So, yes, rural seems to have done better. There is no change really in the profile. The profile difference between rural and urban has remained such because I do not think the profile would change so suddenly especially when we have only one quarter of data.

Moderator: Thank you. Next question is from the line of Ronak Sarda from Systematic Shares. Please go ahead.

Ronak Sarda: Just continuing on the previous question on the top-10 cities, if I even look at maybe the metros, we are seeing some easing out happening on the lockdown side, the net cases seem to be coming off. But based on your discussion with customers here, do you see the demand recovering quickly or do you think the festive season would again be a bit uncertain just purely based on customer interaction with the sales team, how do you see the demand from the metros in thenext few months?

Shashank Srivastava: We do have some data points from June and July. So I think the previous question was relating to the top-10 cities demand as a percentage of the total sales last year which is about 34%. Actually in the first quarter, it was pretty less than that. In fact, in July, since the lockdown has been lifted in many parts, I am seeing for the last one week or so that the demand seems to have come back in the urban areas also. So, I think while in first quarter, the demand in the top cities were less I am seeing, but in the last few weeks I have seen there is some upsurge in the demand in the top-10 cities as well. So I think it is too early for us to take a position on how it will pan out in the coming few days. But the response at this time seems to be encouraging for the areas where the lockdown has been completely lifted.

Ronak Sarda: And a part two of this question is how do you see competitive intensity right now, I mean, how do you think that will shape up given this has been a huge disruption, also, do you see what kind of implications would have this on the overall competitive scenario? And in July retail sales, would you say it is around 85%, 90% of last year the current trend?

Shashank Srivastava: I am not able to give you the forward-looking projections for July, but trend seems to be good at the moment, you will get those numbers in a few days time I am sure, 1st August, we will release the numbers for the month of July. But when you are talking of the competition, obviously, they are strong, we are fighting in all segments as always, we keep trying to maintain our market share.

Ronak Sarda: Last question for Ajay sir. So other expenses if we see for this quarter, does this have any exceptional item here or this is something which was the discretionary which have been cut or do you see there is some one-offs still there in Q1 numbers as well?

Ajay Seth: There is no exceptional item except for the fact that we have contained costs this quarter based on much lower production. So a lot of cuts across all verticals have happened this quarter as discretionary expenses have been cut. And if the production goes up, we will see if we need to incur some of the advertisement and marketing expenses later on, but this will all depend on how it pans out in the next few quarters. So, there is no exceptional item the only exceptional item, as I mentioned earlier, was in the material cost where we had this fixed cost incidence of about Rs.110 crores or so, which was because of the lowering of inventories which over the year will get normalized.

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