Q1 FY22 – Investor Conference Call

July 28, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'22 Earnings Conference Call of Maruti Suzuki India Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation 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 now hand the conference over to Mr. Pranav Ambaprasad. Thank you, and over to you, sir.

Pranav Ambaprasad: Thank you, Margaret. Ladies and gentlemen, good afternoon once again. May I introduce you to the management team from Maruti Suzuki. Today, we have with us our CFO -- Mr. Ajay Seth; from Marketing and Sales we have Member, Executive Board – Mr. R.S. Kalsi; Senior Executive Director, Marketing and Sales – Mr. Shashank Srivastava; from Corporate, Executive Director, Corporate Planning and Government Affairs – Mr. Rahul Bharti; Senior Advisor, Corporate Planning – Mr. K. Kasahara and General Manager, Corporate Strategy and Investor Relations – Mr. Nikhil Vyas; from Finance, we have Executive Advisor – Mr. DD Goyal; Executive Director – Mr. Pradeep Garg; and Executive Vice President – Mr. Sanjay Mathur.

The concall will begin with a brief statement on the performance and outlook of our business by Mr. Seth, after which we'll be happy to receive your questions.

May I remind you of the Safe Harbor. We may be making some forward-looking statements that have to be understood in conjunction with uncertainty and the risk that the Company faces.

I also like to inform you that the call is being recorded and the transcript will be available at the website.

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

Ajay Seth: Thanks, Pranav. Good afternoon, ladies and gentlemen. I hope you and your families are healthy and safe. Q1 of Financial Year 2021-22 was extremely difficult times for all of us because of the sudden upsurge in the COVID-19 infection across the country. As a responsible corporate citizen, the Company is contributing to the best of its ability to support the country in the fight against the pandemic. At the time when the country was battling the second wave of COVID-19 and was facing shortage of oxygen for medical needs, the Company temporarily suspended its production operations in Q1 to divert the oxygen available from the industrial use of medical purposes. Additionally, the Company realized the critical importance of rapidly installing PSA oxygen plants to produce life-saving oxygen. The Company decided to collaborate with its supplier partners to help quickly scale up the domestic manufacturing of PSA oxygen generator plants. The Company along with vendor partners also donated 25 PSA oxygen generator plants to various government hospitals in the country. Also, the Company together with the help of its parent Company, Suzuki Motor Corporation, donated 1,000 oxygen cylinders to various government hospitals.

The Company accords utmost priority towards ensuring the safety of health for all its value chain members. The Company collaborated with its value chain partners to quickly revise the standard operating procedures so as to minimize the risk of infection spread.

Also, COVID-19 vaccination camps are being organized for employees including their families. Besides, the Company is also facilitating its value chain partners and business associates in this regard. The Company will continue to observe all COVID-19 SOPs and precautions, be sensitive to the human and social element, build an environment of positivity and keep working hard as its bit in these difficult times.

Let us start with some recent Business Highlights and Milestones.

With its sustained effort and focus, the Company has attained the mark of 50 lakh sales cumulatively in non-urban markets with over 1,700 customized non-urban outlets across the country. The Company was first to believe in the potential of up-country markets, at present nearly 40% of the total MSIL sales comes from non-urban markets.

NEXA channel completed six years of offering new and innovative customer experience in July 2021.

The Company expanded Maruti Suzuki Smart Finance, an online end-to-end real-time car financing service facility to pan India, thus providing the convenience of financing Maruti Suzuki cars online from anywhere at any time.

The Company expanded the Subscription Service Program to 19 cities in the country.

Coming to the Business Performance, Q1 financial year 2021-22 was a challenging quarter, marked with large-scale lockdown restrictions across the country. As a result, the Company witnesses a significant disruption in its business operations. During the quarter, the production operation started to recover in June 2021 from the lows of May 2021. With the gradual ease of lockdown restrictions in some parts of the country, the sales operations started to recover in the later part of June 2021.

The Company also posed tie-ups with financiers to support dealer partners in inventory financing. On demand side, the customer preference towards CNG continue to increase.

During the quarter, the Company faced supply side issues including global semiconductor shortages. With a meticulous planning and by closely collaborating with supplier partners, the Company was able to manage supply issues during the quarter. The third plant in SMG having an annual production capacity of 250,000 units was made operational.

Additionally, the unprecedented and unabated increase in the prices of commodities continue to exert significant cost pressure. The Company has stepped up its cost optimization program, lowered the sales promotion and advertisement expenses to limit some of the adverse impact of steep increase in commodity prices besides taking price increase carefully.

Coming to Financial results, second wave of pandemic adversely impacted on the Q1 production and sales. While all parameters this quarter was substantially better than Q1 of financial year 2021, a comparison is not meaningful because Q1 last year had a much higher degree of disruption due to the pandemic. Sales in Q1 remained far below the previous high of Q1 of financial year 2018-19.

The Company sold a total of 353,614 units during the quarter. Sales in the domestic market stood at 308,095 units and exports were at 45,519 units. For reference, the total sales in Q1 financial year '18-19 stood at 490,479 units.

During the same period previous year, the Company sold a total of 76,599 units including sales of 67,027 units in domestic market and exports of 9,572 units.

During the Q1 of this year, the Company registered Net Sales of INR 167,987 million compared to net sales of INR36,775 million in Q1 financial year 2021.

The Company made a Net Profit of INR 4,408 million in the Q1 of financial year 2021-22 compared to a loss of INR2,494 million in Q1 financial year 2020-21. The profit for the Q1 FY 2021-22 was primarily impacted due to lower sales volumes. Commodity prices increased steeply but the Company continued to make efforts to reduce costs.

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

Moderator: Thank you very much. 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 to check on the demand environment, how are things shaping up post the second wave, and within this current environment, if you can also comment on how you think the pricing will evolve and how the commodity costs will evolve from where they are? That is first question. The second question is on technology, if you can give your thoughts on the electric, hybrids, as far as Indian context or regulatory framework is concerned over the next five years, why do you think, for example, hybrids would be a more relevant technology for India?

Shashank Srivastava: I'll answer the first part which is related to the revival of demand post the lockdown. So, the demand in July seems to have picked up once we had the unlock in most of the states. Now, except for two states of Northeast, Manipur and Mizoram, all other states are open. As a result, we have seen a pick-up in the case of enquiries as well as bookings, as also the daily retail. So, if you compare it with the peak of last year which was Q4 average, enquiries are roughly similar, although the bookings are about 80%, 85% of the Q4 of last year. If you compare sequentially with June, then enquiries and bookings are about 20% above last month and the average retails are similar to the June levels. That is the extent of recovery, and we believe this time the recovery is led by both urban as well as rural unlike last year which was mainly led by rural.

Ajay Seth: Kapil on commodities, I think we continue to see an increase in commodity prices and typically for part of the commodities we have a quarter lag. So, we will see increase in commodities in this quarter as well as the next quarter beyond which we will have to watch in terms of how the overall commodities move and we are hopeful that towards the second half of the year, the commodities may stabilize from these levels that they're peaking at, and all may come down a bit. So, that is on commodities. Commodities increase has been pretty steep, quite unprecedented, I mean, we haven't seen such sort of increase before for many decades and that's a major impact on our margins. On price increase, I think we have been gradually taking price increases; we've done a price increase as recently in July and prior to that we have taken in April price increase. So, to the extent that we can increase the price in the market we are doing it, but there is also a limitation of how much price increase we can take which does not disrupt demand at the same time. So, we will take a collaborative call between cost and price and accordingly deal with it as we move forward.

Rahul Bharti: Kapil, to answer your third question on technology, for the purpose of crude oil import reduction for reducing our carbon footprint for the environment, we will be working on all technologies that help us towards this objective which means one, at the grass root level IC engine improvements, two, electrification and hybrids and they are part of the same family, hybrid electric and battery electric and three, natural gas and biofuels also recently. We will be working on all. Now some segments have a higher propensity or faster absorption of some of these technologies, so different segments will respond to different technologies differently and we will be pursuing all of them in a manner that it gives us highest returns. You might have heard the recent news that there is a joint testing program of some electric vehicles, these prototypes will be tested starting next month along with Toyota that we are planning to get more consumer feedback on usage pattern, etc. Till the time charging infrastructure grows in India and you will need self-charging machines, so towards that we will be using hybrid electric vehicles. We are also very hot on the way natural gas is progressing in the country. The Prime Minister has a mission to increase usage of natural gas from 6.3% to 15% in the overall energy basket, and CNG and PNG are two major pillars of that. So, we will be wholly participating in that program. Many new cities have come up and the penetration of CNG cars you would have seen have gone up dramatically. And Mr. Shashank Srivastava will just show some very interesting statistics about CNG soon. And we are also responding to a government program on ethanol. The government has mandated E20 by 2025 and they are talking about biofuels. The good part about biofuels is that they are carbon-neutral or even carbon-negative. So, we'll be seriously evaluating them. So, we'll be firing on all cylinders to reduce carbon and to reduce oil import in the country.

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

Pramod Amthe: Two questions: One, specific to Mr.Ajay Seth. The employee cost seems to be pretty high considering the volume shrinkage which has happened on the QoQ basis. Any one-offs because of COVID or any issue and which you expect to ease off?

Ajay Seth: One, of course is the base effect because the overall sales volume were down compared to Q4 if you see. So, that's one impact. Also, there has been some impact on account of COVID-related expenditure that we've incurred earlier in the quarter, expense with respect to vaccination and number of cases which were to be hospitalized, so there is an expense to that extent. So, I think these are some of these exceptional items which have come in here because of which there is a slight increase that you see. Some of them will not be repetitive if COVID situation normalizes but some may continue if we have a third wave of COVID. So, in this scheme, I think about ~INR 30 crores of expenditures has been put in which is not repetitive in nature. Other than that, the normal increments and this year also we have a wage settlement, so provision is included in the employee cost that you see.

Pramod Amthe: Second is to Shashank sir. Considering that unprecedented commodity costs are leading to quarterly price upward revisions, I want to understand your ground level check in terms of how are consumers adjusting to this reality, one? And considering that this may come to haunt you or the overall industry in coming months in terms of demand challenges, how do you plan to handle to cushion this on the consumer total cost of ownership?

Shashank Srivastava: Thank you for that question and yes, we have to walk that fine line as I say between the top line and the bottom line and that's what we are trying to do. I think Seth san just mentioned that we have to take a calibrated view that we cannot pass on the entire cost increase due to the material cost going up to the consumer because you may disturb the stability of the demand itself. So, yes, we do take segment-by-segment, the demand patterns and see how much the consumers can absorb of the substantial material costs which have gone up and we have calibrated that and that is why you see apart from the increase of I think ~1.3% of ex-showroom price or so in January, we have taken another increase of ~1.6% of ex-showroom price in April. In July also, we have taken a small increase and going forward we will watch how the material costs move to calibrate further increases in the prices.

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

Jinesh Gandhi: My first question pertains to commodity. So, can you indicate what kind of commodity cost inflation which we saw in 1Q vis-à-vis fourth quarter? And secondly, what is our expectation for second quarter?

Ajay Seth: Commodity inflation in the first quarter has been ~3.5% and it is difficult to predict second quarter because the rates are still being negotiated. Firstly, Precious metals we would know because that comes with a quarter lag and increase in precious metals prices is also pretty steep. That's more or less on precious metals. For steel, the demand by the steel units is still higher compared to first quarter which is being negotiated. I think the commodity impact would continue to be rising till the second quarter, after which we think there will be correction and we might see that coming down. So, the second quarter, at the moment, we don't have full negotiated rates available, so we'll not be able to give accurate guidance on that.

Jinesh Gandhi: Any sense on under-recovery on commodity prices considering the steep increase in what we have seen so far, and the price increases you have taken what percentage will be still left to be covered?

Ajay Seth: So, I think that's gradually happening and as Shashank-san mentioned that it is very difficult to absorb the entire increase and it's quite an unprecedented increase in material cost presently. We have been doing it in bits and pieces. We have done an increase in January last year and we did a price increase in April, and we've now again done a price increase in July. We'll keep doing it in small doses, but definitely, we will have to take a very collaborative call-in terms of what works well in the market. You can't just say that whatever is a material cost increase, we pass on the entire in one piece. So, we will have to take a call based on how the demand is, how the market is, and what can be absorbed at what point in time.

Jinesh Gandhi: Was there any cost impact in this quarter because of SMG third line on overall cost?

Ajay Seth: Third line will have an impact. We don't have a specific number here, but it has an impact on fixed cost, more depreciation and the other fixed costs because the third line is now operational. Part of the third line has become operational. Some capitalization will also happen during the second half of the year. So, there will be impact on increase in depreciation which is shown as lease cost in our accounts under other expenses. The balance would be coming in the material cost. We don't have the breakup separately on the third line.

Jinesh Gandhi: Can you share data on exports revenues and discounts?

Ajay Seth: Exports revenues in Q1 was at INR.2,286 crores. The discounts were about INR 14,000 in this quarter.

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

Raghunandan NL: Sir, my first question is, state such as Gujarat has provided incentives for hybrids as well. Would this be attractive enough to consider launch of strong hybrids? Any timeline you have in mind? Secondly, to Shashank sir, can you talk about how you are seeing first time additional and replacement demand currently and replacement which has been very weak, when do you see signs of recovery in this segment?

Rahul Bharti: Individual states are coming out with their hybrid and electric vehicle policies and many states are providing incentives to hybrids also. The case and the viability will be more based on national policy and of course we have it in our active consideration. It's a very strong technology for the next at least 10-years into the future. So, in any case it makes a lot of sense to bring this to India.

Shashank Srivastava: On the second question of the first-time buyer and so on, actually as you know, last year the first-time buyers went up in the industry from about 43% to 48%, there was a 5% up on the first-time buyer. Replacement car buying came down about 8% from about 26% to 18.5%, there was an 8% drop in the replacement car buying. The additional car buying went up by about 3%. That was for last year. The first quarter of this year, we don't have the industry figure yet because the research is done with the time lag, but for Maruti Suzuki the first-time buyer came down a little bit in Q1 to about 45.4% against 46.9% in the same quarter last year. Going forward, we do believe that the replacement car buying should increase because that ~25%has been the percentage of replacement buying pre-COVID for previous three, four years. So, I believe that once people are confident enough to replace their old cars with new ones, replacement car buying should again creep up in that range of about 25%, 26%.

Raghunandan NL: Can you talk about the CAPEX plans? Media reports and Chairman's comment indicate about Haryana capacity of 1 million with a CAPEX of INR 170 billion.

Rahul Bharti: So, this is a long-term kind of projection. Whenever you choose a new location or a site, you take adequate future flexibility into account and the entire capacity that location or that piece of land can hold. So, this is a long-term projection for that, it's an estimate.

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

Gunjan Prithyani: Two questions from my side: Firstly, on this chip shortages which you alluded in your initial remarks, is this something to call out that we should keep in mind for the next couple of quarters that it will have an impact on the production side?

Rahul Bharti: There is this element of uncertainty and fortunately till now we have been doing well as compared to what we hear about many other auto companies both in India and the world. So, the problem is expected to continue for at least a year or so. And so far we have been able to manage, and we'll have to keep studying the situation.

Gunjan Prithyani: As of now, we don't anticipate at least in the foreseeable future that we would have a disruption on that account, is that a fair assessment?

Shashank Srivastava: To further add to what Rahul just said actually Maruti Suzuki has been doing rather better on this front for the simple reason that we have a wide portfolio, as you know, different models require different electronics. So, what we have been doing is adjusting our production with those variants which may not require the specific chips which are in shortage. So, I think that is the reason why so far we have done well as far as production goes and I think going forward the situation should improve once the global supplies of the chips also increase.

Gunjan Prithyani: The second question I had was if you can talk about the inventory levels, the order book that we have now and the royalty number?

Shashank Srivastava: For the order book, as of today, we have about 170,000 or so pending bookings that is the total orders which are pending for delivery at the moment. For the stock levels and the network, we have roughly about 135,000 to 138,000 vehicles which is equal to probably at Q4 levels of retail, about 27 days of stock.

Ajay Seth: Royalty for the quarter is under 4%.

Gunjan Prithyani: I don't know if you can because there's so many moving parts to the margin, right, there is commodity, there is pricing, there was phase-3 and then FX. If you can just give us some sense on the mapping maybe quarter-on-quarter or year-on-year as to how each of these elements moved, I mean, of course, the quantified commodity is 3.5%, but some of the other variables if you can give us some sense it will be really great?

Ajay Seth: If you look at it sequentially, there are two big elements; one is of course the volumes and therefore operating leverage which itself is about 4%. And the second one is as we mentioned is the commodities which is about 3.5%. So, these are the two big ones that have impacted us. And as we are able to now get to the capacity utilization level closer to 100% or 90% whatever the numbers depending on the market I think we will get some benefits from operating leverage if not full, at least bulk of it and similarly when commodity prices correct, I think that also will help us and second is as Shashank san mentioned whatever is possible in terms of price increase I think those actions are also being taken to mitigate whatever extent we can by passing on some of the commodity increase, if not entire, which already happened in the past few occasions. We had mentioned we did one price increase this year in April and we did another price increase in July.

Moderator: The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: One clarification question on accounting of SMG. So, classifying raw materials and all other staff, depreciation, everything is classified in other expenses?

Ajay Seth: All expenses except for depreciation and royalty are a part of material cost. Depreciation is accounted under other expenses and it is shown as lease expenses and royalty payments is accounted under royalty.

Chirag Shah: Second question is on the chip shortage. You very well-articulated the way you are managing it. Is it possible to indicate primarily which are one or two or three key chips or usages which is really an area of problem and where you are in a sense compromising to serve given the situation?

Rahul Bharti: I would prefer not to name our specific partners and how much quantities or where the supply constraints are but we're working with all of them. So, we'll play it by the year, and we hope the problem subsides soon.

Chirag Shah: Can you indicate usage wise, are there more on the communication side, what usage is really causing the problem?

Shashank Srivastava: See, the basic problem is because of the pandemic there have been many alternate uses of semiconductors. The world has digitalised more in the past 12 months plus people are not sure whether to expand capacities or not, is it a permanent demand change or is it a temporary demand increase. So, increasing capacities is also doubtful, that's a fundamental problem.

Chirag Shah: What kind of CAPEX should we look at for FY'22, can you guide on that number?

Ajay Seth: CAPEX plan would be about INR 4,500 crores this year, some movement can happen because of COVID, etc.,

Chirag Shah: The HEV that we were jointly working with Toyota, any comment, when can we expect that?

Rahul Bharti: We can't give you any such guidance, but what we can tell you is it is our active consideration. It's a strong technology for the next 10-15 years and it has a lot of merit, it can scale up without the dependence on external charging infrastructure, offers a good reduction in emissions. So, it has a lot of merits and we'll let you know when the right time comes.

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

Binay Singh: Will it be fair to assume that the third line in Gujarat would have added to cost but not contributed to the top line?

Ajay Seth: So, the third line has just started in April and the production gradually ramps up and unfortunately the first quarter was affected by COVID-19, and even Gujarat had some disruption in the month of May. So, they are now gradually scaling up and as Shashank mentioned, demand seems to be now looking much better. So, I think we'll be able to now ramp up capacity there also, but we will gradually go from one shift to two shifts over a period. So, initially first year normally the plant is utilized about half of the total capacity and in the next year we go up to the full capacity, that's how it works.

Binay Singh: So, the question I was trying to get is that would it have a sizable impact on your gross margin like any number you would want to quantify, the cost that came in because of the shift starting into this quarter?

Ajay Seth: I think this question was asked earlier also and we said that there is an impact on depreciation and fixed cost. Obviously, any new plant which is set up, will have a fixed cost and depreciation. So, the fixed cost is part of the material cost which goes in there and depreciation is in the other expenses. So, we don't have the exact numbers. Although sequentially if you see Q4 to Q1, other expenses have come down, they are not going up, so there has been control on costs on all fronts, and on material cost also there has been an increase but not so severe in spite of whatever I mentioned on material cost.

Binay Singh: Secondly, we've seen that having models with higher ASP, more aspirational portfolio helps companies offset these cost pressures. So, any sort of comments on the future model cycle of Maruti?

Ajay Seth: We do not comment on any future models. There are obviously models in pipeline that you will keep seeing year-on-year, but we do not comment on any model before we launch the model. So, wait for the model launch and see what comes in this year, next year and thereafter.

Binay Singh: We'll keenly await that. Lastly, any comments on the PLI scheme? I know what Suzuki's joint venture is doing for battery manufacturing in Gujarat, will that facility qualify for it, how are you guys looking at the PLI on batteries?

Rahul Bharti: PLI is on the (ACC), Advanced Chemistry Cell which is the part of a battery and the first phase of our TDSG plant we have already put up, it has been commissioned and we are running trial productions now. The scheme is yet to come into force, and we are still discussing the details of the scheme with NITI Aayog and the relevant government departments. But it should have a positive impact on industry, and it should bring some capacity into India.

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

Ronak Sarda: First question is a clarification on the retail booking. Shashank mentioned that July retail booking is largely flat on a month-on-basis, is that correct, and why is that so given production and inventory would have picked up, is it some localized issues which is hurting the retail sales?

Shashank Srivastava: Retail week wise has been going up. So, I would guess by the end of this month, we should see actually both retail and wholesale sequentially higher than June. I don't want to give a specific estimate, but it should be quite above the June level.

Ronak Sarda: Is it possible to highlight what was the entire Q1 retail sales for Maruti?

Shashank Srivastava: In Q1 FY'22 for the Company the retail-sales was close to 200,000 units.

Ronak Sarda: If you can help us understand how the Company is now looking at the SUV segment given a sharp expansion across different categories lately, all the large SUV launches have also been doing very well, so if you can help us understand based on your customer interactions, the feedback how do you see the SUV segment now and where do you see the growth coming essentially in this segment?

Shashank Srivastava: SUV segment has been growing over the years; it was in FY 2019-20 only about 26% of the industry, last year it touched 32%, in this quarter it was 37.9% so let's say 38%,. So, clearly there is a lot of traction in this industry, mostly it is in the mid SUV and the entry SUV. The entry SUV and the mid SUV are roughly equal in terms of volumes as far as the SUV segment is concerned. For example, last year was the 16% for entry SUV and about 15% was mid-SUV. So, you are right, while in entry SUV we have the Vitara Brezza which is the class leading with the 1.5-liter K-Series BS-VI compliant engine, it's the market leader, it's still leading by far; however, in the mid SUV segment, probably a weak spot for us because we have the S-Cross which hasn't performed as well. So, yes, this is an upcoming segment and going forward we will be taking a very close look at this segment as well in fact the entire SUV segment. It's difficult for me to comment on the specific products or plan for the SUV segment.

Ronak Sarda: But what I was more trying to understand, where do you see the segment in next maybe three to five years, do you think this can cross let's say 50% of the industry, are the customers feedback or interactions highlighting that huge shift or do you still think compact cars, or the premium hatchback have an upper or deliver a better value versus a compact SUV?

Shashank Srivastava: You are very right. If I answer the first part of your question we believe the SUV segment growing to around 42%, 43% in next five years but that is based on consumer understanding and consumer surveys. And also, our look at the other countries which are seeing a similar pattern, normally it plateaus around 41%, 42% and that's what we are seeing in India as well. That's the first part. On the second part of your question of the premium hatchback, cross consideration between premium hatchback and the entry level and even the mid SUV, you are right there also, there seems to have been a bigger price overlap especially with the entry SUV the sub-4 meter because of tax considerations, the price overlap is quite large, and we have seen a cross consideration increasing from roughly about 14% a couple of years back to almost 30% between premium hatch and the SUV. So, yes, a part of those volumes is being driven from the premium hatches, but we also believe that a large part of it is coming from the Sedan segment which has seen a dramatic growth downwards; Sedan segment as you know was 23% about five years back, now it's just under 10% in this quarter. So, I think the significant shift has happened from the Sedan to the SUV.

Moderator: The next question is from the line of Arvind Sharma from Citi. Please go ahead.

Arvind Sharma: Could you please elaborate the exact mechanism of commodity cost transfer what is the periodicity of contract signed and after the contract is signed, what happens when commodity prices increase essentially what's the delay between spot price increase in the impact on Maruti?

Ajay Seth: So, commodity price is impacted on account of, there are two portions to it; one is steel, and the balance is PGM and other metals, copper, aluminium and so on. The impact of steel is seen in that particular quarter. The other commodity impact is with a quarter lag. So, the suppliers would be compensated based on the average rates that are there for the preceding quarter, for example, we will now be negotiating rates with steel vendors for Q2, and we would be also compensating suppliers for the other metals including the PGMs for the known rates of Q1. That's how it works in terms of the vendor compensation for both steel and the other metals.

Arvind Sharma: So, what happens if you sign for a quarterly rate, I'm talking about rate goes up within the quarter after this contract has been signed but before you actually procure, so what happens if there's a big fluctuation during that time especially in recent past, we've seen big fluctuations?

Ajay Seth: As I mentioned to you that the steel rate is settled, so that's the settled rate and for the other metals especially the rate movement is pretty sharp in precious metals, so there we take the average of the previous quarter rates and that average is used for the purposes of compensating because it's not just a closing rate of a particular day, these are average for the previous quarter, on the basis of that we compute what is the compensation for that period.

Arvind Sharma: My second question would be more an explanatory part. You said operating leverage impact has been 4% QoQ and commodity has been 3.5% quarter-on-quarter. So, is it the percentage point impact on i.e., EBITDA margin could have been almost 7.5% impacted?

Ajay Seth: No, so, this is what I said are the ones which would have been better if there was no commodity increase and if the volumes were at the same level as we saw in the preceding quarter. But there are other measures that we would have taken, for example, we have significantly reduced our fixed costs in this quarter and that's in the context of the extremely difficult situation we had to cut costs everywhere. Obviously, when volumes will go up, some of the marketing costs will also accordingly go up. Therefore, I mentioned that while I talked about if all other costs remain same, operating leverage of 4%; however, there's also an element of fixed cost, that will go up when your volumes go after especially the marketing cost, we have been very low for example on advertisement cost in this quarter, it's likely to go up. So, there will be a benefit of operating leverage, whether it is 2% or 3%, it will depend on what is our strategy in terms of our marketing spend and the other fixed cost, but definitely there is a scope of improvement on operating leverage, anywhere between 2% and 4%. And secondly, commodity will depend on how much is our ability to pass on. As we mentioned, we will have to take a collaborative call-in terms of how much can be passed on. We've done some correction in selling price in April and July. So, in piece increase in April had some impact but much smaller. Similarly, now, when you see the impact of July price increase and if there is any subsequent increase that happens, you will see that impact also to mitigate the commodity price. Other important thing is to know is that this will also stop at some point in time when all the price increases that we would have done will accumulate that will give you an exact impact for a particular quarter. It's a moving average, it's not a constant. It will depend on all these factors in terms of commodity, where price increase ends up, and where your fixed costs ends up going forward.

Arvind Sharma: I was just clarifying because 7.5% seems a big number, if you take that as an underlying number over 8.3% in fourth quarter, EBITDA margin it becomes quite high, but Yes, got your point sir. Thank you so much.

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

Nitij Mangal: You mentioned that when you're thinking of price hikes, there are limitations, and you have to calibrate the expense. I just want to understand what are you more worried about, is it demand or is it competition and market shares and Secondly, if it's more on the demand side with the kind of recovery we have seen both after the first and the second wave, would there be a case to accelerate price hikes to recoup margins?

Shashank Srivastava: You are right, actually, if you were to choose between the demand side worry or the market share, of course, demand is something which we are not entirely sure of going forward because of the doubts about the third wave and so on and so forth, but of course the market share is a consequence of those volumes. So, in that sense there is a connection between both the volumes which we are targeting as well as the market share. Is that okay or you want some more elaboration?

Nitij Mangal: Actually, maybe just add a little bit that with the kind of recovery we have seen and even after second wave as a Company are you more confident of taking price hikes versus maybe start of the year or how are you thinking about that?

Shashank Srivastava: Surely, of course, the quick bounce back and I must say the bounce back has been better than expected especially in the urban areas I mentioned earlier. While we look at it as a single entity, the price hike and the demand actually we have to break it down into segments. As you know, different segments have different price elasticity. So, we have to make estimate not just of an overall hike but also specific to the segments where the demand is coming from. So, we have to take into account all that and as Seth san very rightly mentioned we then take a calibrated call depending on those segments and the elasticity.

Moderator: The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: My question is that if I do some calculations based on the discount number that we have shared and the wholesale and retail volumes that we have, our average discount per vehicle on the retail level comes out to be about INR 20,800 in this quarter versus around INR17,000 to INR 17,500 in the last quarter. So, the discount levels have gone up essentially by almost INR 3,000 to INR 3,500 in a scenario where basically commodity prices are already rising, people are looking for price increase and secondly you had a decent order book and the demand environment was improving, so wanted to understand what is the key reason for that basically are we focusing too much on volumes because the demand pull is so low that you have to get so much higher discounts or basically is there something that you are looking at?

Shashank Srivastava: If I get the question right, you are saying that there was a very high per unit retail basis sales promotion. Actually, I'm not sure where you got this calculation from because while we calculate based on the wholesale, the wholesale has come down actually to less than INR 14,000 which was about INR 23,800 in 2019-20, INR 18,000 in 2018-19 and so on. So, on that basis it's actually come down dramatically. And on the retail front also, we have brought down the sales promotion. So, I'm not sure where that INR 17,000 – INR 18,000 came from.

Nishit Jalan: Maybe I can take it offline just to explain you this quarter, the wholesales gets closer to 300,000 units, while retails were around 200,000 units and the wholesale discount was 14,000. So, based on that mathematics basically the discounts at retail level comes closer to about 21,000. And similarly in the last quarter also you have shared your retails and wholesale numbers. And if I do similar number calculations over there, then the discount at retail levels for the last quarter comes out to be about INR 17,500.

Ajay Seth: I think it would be more appropriate to see that in year's level because every quarter you will have some gap between wholesale and retail that would be there but I think it would be more appropriate to see what is the discount level at the end of the year and I think we will get to the numbers because we are also very tightly controlling the discounts now and the sales promotion or the discounts that we're giving is totally linked to what's essential and not just throwing away discounts anywhere and everywhere. I understand what you are saying in terms of retail and wholesale, but let's look at the full year and then see the impact of discounts in terms of the trend, in terms of how it moves, so that will give you a more realistic picture. Sometimes you have this mismatch because of certain events and certain situations but full year will give you a better picture.

Nishit Jalan: Obviously, you are working on cost reduction efforts. We have heard from some of the two-wheeler OEMs that they have kind of working on reducing costs on the catalytic converter side by changing the mix and site from rhodium to palladium, palladium to platinum of that sort. So, just wanted to understand your thoughts because PGM has been one of the major worry for the industry and inflation on that front continues to be unabated, right. So, anything you can share on that as to where we are on that or maybe in the coming quarters we should see some benefit coming from that kind of some effort that you are making in terms of reducing cost?

Rahul Bharti: It's already an idea which is being worked upon and it's already in process. I should also tell you that because of the FTA that we have, we are being able to import the precious group metals at a lower rate of duty.

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