



## “Maruti Suzuki FY12 Earnings Conference Call”

**April 28, 2012**



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*Maruti Suzuki India Limited  
April 28, 2012*

- Moderator** Ladies and gentlemen good day and welcome to the Maruti Suzuki FY12 Financial Results Conference Call hosted by IDFC Securities Limited. As a reminder for the duration of the conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. You should need assistance during this conference call, please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Pramod Kumar of IDFC Securities. Thank you and over to you sir.
- Pramod Kumar** Thanks a lot, Lavina. Good afternoon everyone. On behalf of IDFC Securities Limited, I welcome you all to the post results conference call of Maruti Suzuki India Limited. I also take this opportunity to welcome Mr. S. Nakanishi, MD and CEO of Maruti Suzuki along with the top management team. Without wasting much time I now invite Mr. Vivek Kumar, who will take it from here. Over to your, Vivek.
- Vivek Kumar** Thank you Pramond. Ladies and gentlemen good afternoon once again. May I introduce you to the management team from Maruti Suzuki today. We have with us our MD and CEO, Mr. S. Nakanishi. Our Managing Executive Officer, Supply Chain, Mr. S. Maitra. Managing Executive Officer, Marketing and Sales, Mr. Mayank Pareek and our CFO, Mr. Ajay Seth. The conference call will begin with a brief statement of the performance and outlook of our business by our Managing Director. Afterwards we will be happy to receive your questions. May I remind you of the Safe Harbor. We may be making some forward-looking statements. They have to be understood in conjunction with the uncertainty and the risk that the company faces. And I may also like to inform you that the call is being recorded at the transcript will be available at our website. I would now like to invite our MD, Mr. Nakanishi. Over to you, sir.
- S. Nakanishi** Thank you Vivek, Good afternoon, ladies and gentlemen. The year 2011-2012 was a very challenging year for the passenger vehicle industry. After two years of high growth rate the industry faced a demand slowdown in the market. Inflation was high for the second continuous year and the Reserve Bank raised the interest rate to control inflation. At the same time, petrol prices shot up to very high levels. All three factors raised the cost of owning a car by a big amount and the customer started postponing their car purchase. The smaller car is more cost sensitive segment and sales in this segment got impacted more than other segments. The difference between markets linked petrol prices and government controlled diesel prices also shot up. With this petrol car sales in the industry declined by 14% and diesel car sales grew by above 37% along with a waitlist of unserved demand. There was a capacity constraint in diesel engine production. The result was our petrol cars had slow sales and diesel cars had high demand but supply constraint. In the absence of a clear policy direction on taxation, we could not commit investment for capacity expansion. The result was a very huge

shift in product mix and our production team and vendors tried to adjust production to meet the demand of a dynamic market. The market slow down also meant that we had to support sales with a highest ever discount. In the export market the sales to European markets declined because of the economic challenges and our export team tried to develop other markets to arrest the decline. The cost side, a steep appreciation of Yen combined with a depreciation of the Rupee, increased the cost of direct and indirect imports and royalty. Although there was some benefit on the export realization but the impact was limited. We also had unfortunate labor unrest situation at our Manesar facility which impacted supplies. With this the passenger vehicle industry in this year posted a growth of less than 5% over the previous year. The company sold 1,006,316 vehicles in the domestic market, a decline over 11.2%. The total sales including exports stood at 1,133,695 vehicles, a decline of 10.8%. During the financial year 2011-2012 the company achieved net sales of Rs. 347,059 million a decline of 3.2% over the previous year. The profit after tax in the year was Rs. 16,351 million, a decline of 28.6%. In the 4<sup>th</sup> Quarter the company achieved net sales of Rs. 114,864 million, a growth of 17.2% over the previous year. The profit after tax stood at Rs. 6,398 million, a decline of 3.0%. Despite tough times the company kept its focus on both current performance and efforts for the long time. The company was able to achieve 1 million domestic sales for the second year running. Indian customers rated us Number One in customer satisfaction for the 12<sup>th</sup> consecutive year in the JD Power Asia Pacific Survey. We continued our efforts to increase rural sales with a 12% growth this year, rural sales now account for 25% of our total domestic sales. During the year the new Swift and Dzire received a very positive response. The Manesar B-line was commissioned for capacity expansion. A line with market demand, we increased the availability of diesel engines. The work on the development of our R&D center in Rohtak moved as per schedule. Our recent launch of Ertiga has received a very positive response in the market and it will help us build a strong position in the utility vehicle segment. In the year, the company expanded the dealer sales network to 1100 outlets across 801 cities and the service network to 2958 outlets in 1408 cities. Our True Value business helped generate 228,000 new car sales through exchange, a growth of 11% over the previous year.

I now come to the outlook for the financial year April 2012 to March 2013. There has been some positive development like reduction in inflation and cut in interest rate by the Reserve Bank of India and this may help improve customer sentiment. However, a lot of uncertainty exists on fuel prices and the international crude oil is at high levels. Our new product launches have been quite popular with customers and will help our sales. Our apologies to the customers who are waiting and we will try our best to deliver vehicles to them fast.

In export the European market is still weak and we will continue to focus on non-European markets. There appears to be some stability in the foreign exchange rate. With some effort to hedge both Maruti direct and our vendors Yen imports. We hope to limit the impact of the Yen. We will also try to improve our margins from the current levels with economies of scale,

cost deduction efforts and better price realization. The Indian market is rapidly becoming a diesel vehicle market. We will have to come out with a strategy to increase capacity and reduce risk on diesel engine supply. Our total diesel vehicle production should increase from 250,000 in 2011-2012 to about 400,000 this year. We will keep updating you on our diesel strategy in this regard. We hope that the year 2012-2013 comes out better in all respects than the year gone by. With this may I invite your questions and comment and feedback. Thank you very much.

**Moderator** Thank you, sir. We will now begin the question and answer session. Our first question is from the line of Shreya Gaunekar from Morgan Stanley. Please go ahead.

**Shreya Gaunekar** Hi sir, thanks for the opportunity. Just a couple of questions, firstly what would be the export value for Quarter 4?

**Ajay Seth** Export value for the 4<sup>th</sup> Quarter is 1244 crores.

**Shreya Gaunekar** Also I noticed that your other income has gone up sequentially. Any particular reason?

**Ajay Seth** This is largely because of the fixed maturity plans which have matured in this quarter. So a lot of money which was locked into the fixed maturity plans, the income is booked when they actually matured, so capital gains has accrued in this quarter and, therefore, you see that bulge on other income.

**Shreya Gaunekar** Any number you can share on that?

**Ajay Seth** The other income is higher by about 200 crores, largely on account of the capital gains that have accrued.

**Shreya Gaunekar** On the royalty side, is there a number you can share on the reversal on account of FOREX that you have seen in the royalty pay out?

**Ajay Seth** There was a mark-to-market that we did in the 3<sup>rd</sup> Quarter, so that mark-to-market reversal was about 50 crores which has happened in this quarter.

**Shreya Gaunekar** So it is an amount of 50 crores, okay. Thank you, sir.

**Moderator** Our next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

**Kapil Singh** Good afternoon sir. Just wanted to check on average selling prices, we had taken two price increases, one in November and one in January but we have not seen a big change as far as average selling prices are concerned. So just wondering if you could throw some light on that?

- Ajay Seth** See Quarter 4, average selling prices for domestic was at 297,000 and if we were to compare this with Quarter 3, the average selling price was 285,000. So if you look at it sequentially they have gone up almost 12,000. So there has been an increase in the average realization because of the mix that we have been selling now. But if you were to look at this with respect to Q4 of last year, this is substantially higher because at that point in time the average selling prices were at 268,000. So from 268,000 we are at 297, 000, this is only domestic sales that I am talking about.
- Kapil Singh** On the export side?
- Ajay Seth** Export side also because of the exchange which works in your favor, the average selling prices have gone up. In Q3 that was 327. It has not changed much from Q3 because the Euro rates have been more or less same but from Q4 of last year it has increased from 273 to 319.
- Kapil Singh** On the discounts how have its changed from Q3 to Q4?
- Ajay Seth** Discounts have actually gone up slightly, it was at 12,250 in Q3 and in Q4 they were at 13,500, so they are slightly higher than Q3.
- Kapil Singh** In terms of your tax rate we have seen a decline, it is possibly due to the FMPs that have matured. So for the next year the guidance was around 27%, does that still hold?
- Ajay Seth** Yes the guidance will hold. There are two reasons for taxes free being what they are, one is, of course, the tax free income which will also accrue next year because that is way we have invested. And the second is the R&D spend. Now the R&D spend will be happening in the next 2 to 3 years and benefit of 200% that you accrue on R&D will also accrue. So these are two broad reasons why the tax rates are lower.
- Kapil Singh** So for the year as a whole we should expect around 27%?
- Ajay Seth** Yes, that will be the rate.
- Kapil Singh** If you could just throw some color on the hedging position also? How are you hedged now?
- Ajay Seth** What we are now doing is we have got 40% covers on Dollar-Yen hedges. We also are eliminating all the natural hedges which we have on Dollar-Rupee. We are partially covered on Dollar-Rupee for the 1<sup>st</sup> Quarter. On Euro we are okay because Euro we have a natural hedge for increase of imports and exports. So the policy that we are following this year is that to the extent of natural hedge we will not touch anything and to the extent of the net exposures that we have, we will gradually cover. **Kapil Singh** This 40% includes the indirect exposure also?

- Ajay Seth** Yes, both put together.
- Kapil Singh** So can you give some color as to what would be the average rate for JPY-USD?
- Ajay Seth** It is better than the current market rate.
- Kapil Singh** In terms of waiting period can you tell me how is it for the diesel models and also Ertiga and how many bookings have you got for Desire, Swift and Ertiga as of now?
- Mayank Pareek** Kapil, we launched Ertiga on 12<sup>th</sup> of April. We have got 22,000 bookings already for Ertiga. And yes, predictably because of the diesel and petrol price differential, this is skewed in favor of diesel, 80% plus is diesel and rest is petrol.
- Kapil Singh** For Swift and Dzire?
- Mayank Pareek** Swift and Dzire, yes, you would recall that we have launched, last year we had refurbished and we launched new Swift and new Desire and customer had really loved it. So despite increasing our production actually Swift is almost touching 18,000 vehicles per month and Dzire more than 10,000. Since the demand is much more than supply, the waiting period is still there. For example, in Dzire we will have a waiting period of around 4 to 5 months and Swift around 6 months.
- Kapil Singh** Is this for the diesel variants, right?
- Mayank Pareek** You are right, this is for the diesel variants.
- Kapil Singh** For petrol also do we have waiting?
- Mayank Pareek** Yes, petrol we have maybe around 4 weeks.
- Kapil Singh** Thanks a lot.
- Mayank Pareek** Thank you very much.
- Moderator** Our next question is from the line of Gaurav Agarwal from Irevna. Please go ahead.
- Gaurav Agarwal** Thanks for the opportunity, sir. Two questions, if I may. One is, what was your yearend vehicle assembly capacity that is exit capacity as of March end?
- Rahul Bharti** Our capacity including the productivity stretch that we have is about 16 lakhs per annum.

- Gaurav Agarwal** What will be your vehicle assemble capacity post full expansion of your Manesar plant?
- Rahul Bharti** This is what we have mentioned, including the Plant B of Manesar, we have between 15 to 16 lakhs of capacity. There is a Plant C also which is under construction.
- Gaurav Agarwal** What would be the capacity of Plant C?
- Rahul Bharti** 250,000 per annum.
- Gaurav Agarwal** So it would go up to 1850?
- Rahul Bharti** Around 17-18 lakhs.
- Gaurav Agarwal** My second question would be on your new diesel engine plant which you are setting up in Gurgaon. One, is it going to be in Maruti Suzuki or is it going to be under Suzuki Powertrain?
- S. Nakanishi** Gurgaon is Maruti Suzuki company.
- Gaurav Agarwal** So the new diesel engine plant will be in Maruti Suzuki.
- S. Nakanishi** Yes.
- Gaurav Agarwal** Second, what will be the CAPEX and capacity if you could share those numbers also for the diesel engine plant?
- Ajay Seth** The CAPEX on the diesel engine plant would be about 1700 crores. We are looking at a capacity of 300,000.
- Gaurav Agarwal** By when we can expect the full capacity this diesel engine plant?
- Ajay Seth** It will be in two phases, so it will be 150,000 to begin with which will happen by middle of next year and thereafter another 150,000 will be in 2014.
- Gaurav Agarwal** By middle of next year, we mean calendar year?
- Ajay Seth** Financial year.
- Gaurav Agarwal** Thanks a lot, sir.
- Ajay Seth** Thank you.



- Moderator** Our next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi** Hi sir. My question is pertaining to your diesel capacity, you indicated a capacity of about 400,000, so that is the maximum or are we taking further initiatives beyond this capacity addition in the interim to expand beyond 400,000?
- S. Nakanishi** No, 400,000. Means from the Suzuki Powertrain company, that is diesel engine company, they are supplying us 3 lakhs. In addition to that, we have made a contract with Fiat India to purchase 1 lakh in a year. So total 4 lakhs.
- Jinesh Gandhi** Can we stretch it to 4,50,000 or so through debottlenecking at Suzuki Powertrain or 300,000 is after debottlenecking?
- S. Nakanishi** Not possible because Suzuki Powertrain last year was 2.5 lakhs, then now they stretched to this 2.5 to 3 lakhs, more than that impossible.
- Jinesh Gandhi** Secondly, with respect to the petrol vehicle sales considering that we have our restriction on the diesel engine availability. What are the initiatives we are taking on the petrol vehicle sales in terms of the push from company side?
- Mayank Pareek** Actually that is a key marketing challenge we have this year because as we have seen last year and as MD sanmentioned in his opening remarks, while the diesel grew by 37%, this does not include a huge backlog of orders, petrol segment de-grew by 14%. So we had to find a lot of ways to do this. We are doing many things and I will list some of them. Some of the things which deter customer from buying petrol car, is increased cost of ownership. So we are working at various facets of business so that cost of ownership can be lower, which includes cost of buying, this is, can we do something about interest rate, interest subvention. Then also we are trying to find segments of market which are rather less affected by fuel prices, the customers would drive less or customers who are located in places where they prefer diesel and there are many places like that. So that is another area in which we are trying to work in. We are also working on exchange; customers who have old cars can be changed to new cars which are more fuel-efficient. So there is a list of initiatives which we have initiated this year to try to turn around the petrol segment.
- Jinesh Gandhi** Sure. Just confirming on the JPY hedging, if I have understood it correctly, you indicated you will be hedging JPY-USD on rolling basis up to 40% of exposure and INR-USD would be again partly hedged not fully hedged?
- Ajay Seth** What I said was that we have already hedged 40% of JPY-USD exposure, already hedged and as we find Yen rates going forward improving we will try to cover more for the remaining part

of the year. But our normal strategy is to hedge about 50% of our total exposure, not to go beyond it because otherwise if there is an opportunity in the market you lose out on that. So we will try to build our books up to 50% and beyond that unless there are compelling reasons we will not try to hedge.

**Jinesh Gandhi** 40% of FY13 is hedged?

**Ajay Seth** Correct.

**Jinesh Gandhi** And partly hedged for 1Q for INR-USD?

**Ajay Seth** Correct.

**Jinesh Gandhi** Last question on your localization drive. There were some flashes post results saying that 4Q margins were supported by localization and cost reduction. Can you throw some light in terms of what would be the contribution of that in 4Q and what we expect in FY13?

**Ajay Seth** The results that you see of the 4<sup>th</sup> Quarter there is some impact of cost reduction that we normally do for the year and of course, some impact of localization but the impact of localization would not be very significant. Localization impact would really kick-in in a couple of years from now. These are long-term projects, so whatever is being done now the real impact of that would only be seen in about 2 to 3 years from now. So there are other initiatives that we have taken on the cost side because of which in spite of such a steep hit that we had on the exchange where we had to compensate vendors for the FOREX, we have been able to still make up out of it by way of cost reduction. But these are other productivity initiatives that supply chain takes from time to time.

**Jinesh Gandhi** So we do not expect meaningful savings from localization even in FY13?

**Ajay Seth** Not really. Probably it is going to take another two years.

**Jinesh Gandhi** Okay, thanks and all the best, I will come back in the queue.

**Ajay Seth** Thank you very much.

**Moderator** Our next question is from the line of Hitesh Goyal from Kotak Securities. Please go ahead.

**Hitesh Goyal** Thank you for taking my question. Firstly on the domestic realization, the numbers that you shared actually if you look at the results, and I subtract the export revenues and look at the domestic realization, it is more or less flat. The Rs. 2000 decline in average gross realizations on domestic and even if I exclude discounts it is more or less flat and the product mix has

actually improved quite significantly in the quarter. So just wanted to know what I am missing out here?

**Ajay Seth** I think you will have to segregate because the net sales will include many other elements like the sale of spare parts. There has been some re-grouping on sale of steel coils, etc. So I am just giving you pure number of vehicle sales because you will not have that in the SEBI format. The realization of vehicle sales in Q3 was 2,85,000, we again repeat, and this quarter it is 2,97,000. So sequentially the realization has actually gone up by almost Rs. 12,000 per vehicle.

**Hitesh Goyal** Also regarding the CAPEX, can you share what is the CAPEX done in FY12 and what could be the total CAPEX in FY13 and FY14?

**Ajay Seth** In FY12 our total CAPEX was about 2700 crores and we will be a slightly over 3000 crores of CAPEX in 2012-2013.

**Hitesh Goyal** And FY14 is still not finalized?

**Ajay Seth** That is still not finalized.

**Hitesh Goyal** Thank you.

**Moderator** Our next question is from the line of Chirag Shah from Emkay Global. Please go ahead.

**Chirag Shah** Thank you for the opportunity. Sir, first on the CAPEX of this 2700 for this year and 3000 crores for next year, how much would be product development and R&D spend in this? Broadly how should one look at that number?

**Ajay Seth** R&D spend in 2011-2012 would be about 200 crores.

**Chirag Shah** And 2013?

**Ajay Seth** Next year it will go up substantially, I think it will be about 500 crores.

**Chirag Shah** Fair enough. And sir, just a clarification on the hedging, when you say 40% of your Yen-USD is hedged on rolling basis, is it that for 1Q your hedging or the immediate quarter would be on the higher amount and subsequent quarter would be lower amount, how does this work internally for you?

**Ajay Seth** We are currently looking at hedging for the first half and partially some contracts that we take for royalty which is payable in November so for the 3<sup>rd</sup> Quarter, so largely our 1<sup>st</sup> Quarter

would be hedged fully. Our 2<sup>nd</sup> Quarter would be hedged almost two-third and 3<sup>rd</sup> Quarter we would have taken some hedges which will be small but largely to cover the royalty exposure.

**Chirag Shah** Fair enough. And you indicated the natural hedge. What could be that as a proportion for you?

**Ajay Seth** Natural hedge only for Dollar-Rupee and Euro. Euro has got a full natural hedge because our imports and exports by and large match, except for the timing difference. On Dollar-Rupee we will have about 25% cover on account of natural hedge.

**Chirag Shah** Fair enough. And one more question was on this MTM reversal, if I understand correctly in the last quarter, in the 3<sup>rd</sup> Quarter there were some 75 crores charge on MTM. But reverse was only 50 crores, is it right?

**Ajay Seth** Royalty was 50 crores, there would be other items of MTM that would be sitting over it, like commodities and so on and so forth. I am talking about the specific reversal of royalty that happened which is 50 crores.

**Chirag Shah** Last question on margins, if you look at the margins in this quarter, despite diesel volumes being better in overall scheme of things, your margins have actually disappointed to some extent on a sequential basis also with the kind of operating leverage is not visible. How one should look at it? What are the factors that have affected margins?

**Ajay Seth** I had earlier mentioned to you also that we will have a significant amount of compensation to be paid to vendors on account of the quarter lag that we have on our foreign exchange. So that if you were to see sequentially it is over 200 crores and if you were to compare it with last year it is 280 crores.

**Chirag Shah** So it is largely this 200 crores impact which has come in the quarter which is affecting margins and that will not be a big number for next quarter at least?

**Ajay Seth** It depends on where the base sets, right.

**Chirag Shah** This was helpful thank you.

**Moderator** A next question is from Mahantesh Sabarad from Fortune Securities. Please go ahead.

**Mahantesh Sabarad** Good afternoon and thank you for giving me this opportunity. I noticed that between the 3<sup>rd</sup> Quarter results declared earlier and the 3<sup>rd</sup> Quarter results that you have shown right now there is a difference in the top line, net sales of about 150 crores and the EBITDA is about 14 crores lower both of which are lower, can you explain why is that?

- Ajay Seth** I had earlier also mentioned there is some regrouping because of the new schedule 6 format, the sale of steel coil which was not reduced from the material cost earlier and was shown as sales has now been regrouped in the material cost so it's actually been reduced from material cost and therefore you see the difference both in the top line and accordingly in the material cost.
- Mahantesh Sabarad** But then the EBIT difference comes about 14 crores, they do not cancelled out.
- Ajay Seth** There is also a difference between how you line operating income and non-operating income so there is a regrouping even in that so the provision which are written back were earlier taken as operating income and now been taken as non-operating income.
- Mahantesh Sabarad** And that's about 14 crores?
- Ajay Seth** Yeah that would be roughly the amount.
- Mahantesh Sabarad** Just one more question on CAPEX, if I heard you rightly mentioned that you're expecting 3000 crores as the CAPEX for FY13, does this include any investments towards your Gujarat plant?
- Ajay Seth** No.
- Mahantesh Sabarad** Does this include the Rohtak R&D spends?
- Ajay Seth** Yes.
- Mahantesh Sabarad** So this means Rohtak R&D spends if I'm right the media was reporting about 1000 crores as Rohtak R&D spends or 1100 crores, you said the amount we should consider as a ...
- Ajay Seth** I said next year it will be 500 crores so it is going to be spread over a period, some money we would spend this year, some expenditure will happen next year and thereafter.
- Mahantesh Sabarad** And one more question on your balance sheet that you have shown you have virtually no long-term debt, any reasons thereof? You have more short-term debt than long-term, I would presume that long-term would offer a better interest cover.
- Ajay Seth** We had an external commercial borrowing which is now almost over so the tenure which is left is less than a year so therefore it is got shifted from long-term debt to short-term debt.

- Mahantesh Sabarad** And no plans to go in for any other long-term debt, do you have a substantial CAPEX plan and that Gujarat investment is still to be made. Have you made up your mind on Gujarat investment already?
- S Nakanishi** We will discuss sometime in June that is the Chairman's comment.
- Mahantesh Sabarad** So whether you will invest or not will be decided in June is that how I should interpret it?
- Ajay Seth** So we are talking about when we will time it in terms of going there but I think the decision to go to Gujarat has already been communicated. It is only a matter of when do we go ahead so timing will be decided.
- Mahantesh Sabarad** That answers all my questions thank you very much.
- Moderator** Our next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.
- Srinivas Rao** Sir Srinivas here, I have two questions. First, if I look at your what I would call contribution or contribution margins which is just your net figures in your raw material cost that margin has not moved up materially between the two quarters. So just want your thoughts on that as someone mentioned earlier there is an expectation probably of improvement given the diesel sales if you can comment on that? Second, on the light of this regrouping could you figure the number for your scrap sales only because that would help probably for us to understand the increase in the other numbers?
- Ajay Seth** So I will answer your second question first. The scrap scales for the quarter is 91 crores and for the year is 295 crores.
- Srinivas Rao** That's helpful. The other question the contribution margin.
- Ajay Seth** I had explained earlier, are you talking about Q3 to Q4 sequentially or are you talking about?
- Srinivas Rao** Sequentially, maybe that number is probably sort to get ...
- Ajay Seth** Let me explain you; there are 3 or 4 reasons for that. Number-one is that we had to pay vendor compensation for the foreign exchange impact because that happened with a lag. So over a 200 crores of compensation was paid to the vendors on account of foreign exchange fluctuations in this quarter that's reason number one. Reason number two is that the discounts in this quarter are higher than the discounts in the third quarter. Now you almost lost about 3% margin on account of these two factors which is fortunately made up on account of the cost reduction initiatives that were taken up by supply chain and some benefits on the localization that we achieved. But also the price correction that we did in the marketplace and there is

some favorable impact on the mix as well. So a combination of these have been responsible for cleaning up otherwise we would have seen the margins to be much lower than where they look now. But because of the counter measures of some correction in prices, better mix and cost reduction that we achieved in this quarter we are flat otherwise the margin could have been lower than by about 3%.

**Srinivas Rao**

This is very helpful, thanks.

**Moderator**

Our next question is from the line of Hari Ravishankar from Janchor Partners, please go ahead.

**Hari Ravishankar**

Thank you so much. Congratulations on the quarter, I have two questions, one there was some news article suggesting that your royalty rate might be renegotiated or at least changed from Yen to either the dollar or the rupee, I was wondering if you could comment on that and then have one more question.

**Ajay Seth**

The royalty rates are based on each model on our license agreement and they are prefixed so there is no question of any royalty rates being changed. The royalty rates are determined for the period of time and there is rate which is approved both by the board and by the company. So there is no question of any change in the royalty rates. Royalty will only get affected to the extent of movement in the Yen-dollar rate. So if Yen-dollar and dollar-rupee so yen-rupee really if they move in our favor you will see lower royalty, if they move against us you will see higher royalty. Otherwise the rates are fixed, the rates will not change.

**Hari Ravishankar**

There is nothing happening to change the denomination of that from yen to either the dollar or the rupee to reduce the volatility for Maruti?

**Ajay Seth**

It doesn't matter, volatility will be there in both the cases because you are bearing the brunt of either its yen or dollar so whichever way you look at it the currency risk will still remain. So there is no question of any change in terms of currency or in terms of rates.

**Hari Ravishankar**

And the second question is what is the dollar rupee exposure and in that do you include Yen, obviously when we talk about yen that is yen-rupee and separate that out as yen-dollar and dollar-rupee so does it include that dollar rupee part of the 22% of cost and the 5.5% royalty?

**Ajay Seth**

No the royalty whichever way you look at it is dollar-yen and dollar-rupee so let me give you one broad number which will help you to look at what our net exposures are on dollar-rupee. We have a net exposure of royalty, direct imports and indirect imports, net of exposure that we have about \$1.5 billion for the year.

- Hari Ravishankar** Thank you.
- Moderator** Our next question is from the line of Mittul Shah from First Global. Please go ahead.
- Mittul Shah** Good afternoon sir. Thank you for taking my question. I have two questions, one is I would like to know average exchange rate for import as well as export in FY12 means INR versus USD as well as USD and Yen and second question is I would like to know diesel model contribution in total of this 1.1 million volumes.
- Mayank Pareek** The diesel was around 23% out of our total sales.
- Mittul Shah** Including domestic as well as export both?
- Mayank Pareek** Export is only petrol, if you ask 1.06 million, out of that 23% was domestic with diesel.
- Mittul Shah** First question of exchange rate average.
- Ajay Seth** Average exchange rates for Financial Year12 and what will be relevant is the Yen-rupee rate which is at 59.50.
- Mittul Shah** This is for import as well as export both?
- Ajay Seth** There are no exports in Yen unfortunately, this is for imports only.
- Mittul Shah** And for export what is the average exchange-rate for USD versus INR?
- Ajay Seth** USD-INR average exchange rate for exports would be 48.65.
- Mittul Shah** Thanks a lot.
- Moderator** Our next question is from the line of Basudeb Banerjee from Quant Broking, please go ahead.
- Basudeb Banerjee** Thanks for taking my question. I have couple of questions, is there any possibility of increase for up-take of diesel engines from Fiat from the current contract of 1 lakhs per annum?
- S.Maitra** I think there is absolutely no possibility. What they have told us is of maximum 100,000 for this fiscal.
- Basudeb Banerjee** And sir second question is, what is the target export markets for Ertiga presently?



- Mayank Pareek** As you know Ertiga we have just said the global launch is on 12<sup>th</sup> and to begin with we are trying to CKD operation in Indonesia and thereafter once we do that we will evaluate other markets and then pick some volumes.
- Basudeb Banerjee** But from media articles we went through last week saying that Suzuki Indonesia subsidiary will sell Ertiga manufacturing there rather than importing from India as the market size sales expectation is big enough?
- Mayank Pareek** That is also set, it will be kit operation, and it's a KD Operation. Basically show in evaluating where to assemble depends on where do you get the most cost-effective solutions. So apparently it appears KD Operation is the best suitable for us in Indonesia to give a superior value to customers there.
- Basudeb Banerjee** Thanks.
- Ajay Seth** Thank you.
- Moderator** Our next question is from the line of Sonaal Gupta from UBS. Please go ahead.
- Sonaal Gupta** Good afternoon everyone and thanks for taking my question. Sir just first question was on how big is the steel coil sales, is it the same scrap sales or is this different?
- Ajay Seth** No Steel coils, we will just get back to you on the numbers in terms of what the adjustment has been on steel coil. It will not be very big though but we will just get back to you on the numbers.
- Sonaal Gupta** Is there any other in terms of like you said spare parts, steel coil and these things because the ASP sort of been roughly flat quarter-on-quarter X of the exports like you have explained that the actual per unit has gone up but the rest of it is not gone up. So I just want to understand if there is some one-off affect there or is this all normal?
- Ajay Seth** Steel coil will be that one-off affect but we will give you our break down in terms of vehicle sale separately so that your understanding is better and what are the other elements.
- Sonaal Gupta** And just the other point was in terms of the R&D, what is the total R&D envisaged for the Rohtak facility in the next 2 to 3 years, what is your plan?
- Ajay Seth** The total project cost is about 2000 crores.
- Sonaal Gupta** And how much we have spent till now?

- Ajay Seth** We have already spent on the procurement of the land, the initial work on the test track facilities have started. The total spend so far would be in the vicinity of about 900 odd crores and bulk of the expenditure which is about 1100 odd crores will happen between next year and two years thereafter.
- Sonaal Gupta** So at the end of it what are the potential positives that we see for the company from this investment?
- Rahul Bharti** It will give us a lot of agility in product refreshment in India.
- Sonaal Gupta** And given that like you said that diesel will see sort of fuel which is happening in India so do you see the need for any new diesel engines of a different size or something of that sort or are there any plans to procure that from any other manufacturer or anything of that sort?
- Ajay Seth** Yes so much where India is a real growing market and despite a less growth last year if you see Indian market for last five years we have maintaining a CAGR of 14% and expected that going forward the trend will continue and considering the current diesel and petrol price differential it appears that diesel will be a favored fuel. So going forward and currently we have one of the best possible engines in terms of D13 and our engineers done a good job by doing a high powered D13 engine. So currently that is only thing we have and that is doing very well. Ertiga we have launched with same diesel engine and performance has been extremely good.
- Sonaal Gupta** Last question how much can you scale up the Ertiga, what would be capacity for that?
- Mayank Pareek** In all the earlier questions we mentioned with we have current capacity of around 1.5 million and we operate plants in a very flexible manufacturing. We have flexible manufacturing system so shifting from one to another is possible.
- Sonaal Gupta** Thank you so much.
- Moderator** We will take our last question is from the line of Sumanta Khan from ICICI Prudential Life Insurance please go ahead.
- Sumanta Khan** Thanks a lot for giving me the opportunity. I just wanted to know your other operating income has been substantially high this year compared to last year. How sustainable is this going forward?
- Ajay Seth** It all depends on where the interest-rates move so if the interest rates fall then income will also fall and we have the window of fixed maturity plan so that gives you a tax break, etc. So if the same trend continues the income is sustainable, if the interest rate falls you will see some fall

in income. We have been maintaining a cash balance of about between 6000 to 7000 crores and that's giving us maximum return. So that's on the non-operating income side, on the operating income it is largely driven by the business. These are incomes that we generate from sale of scrap, the relative businesses through value and others that we have so that is a sustainable income that we can generate year-on-year.

**Sumanta Khan** Thank you.

**Moderator** I would now like to hand the conference over to Mr. Pramod Kumar for closing comments.

**Pramod Kumar** Thanks a lot Lavina. I would like to thank all the participants and management of Maruti Suzuki to take time out and participate in this call. Have a great weekend all of you. Thank you.

**Ajay Seth** Thank you Pramod.

**Moderator** On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines.