"Maruti Suzuki Q4-FY13 Earnings Conference Call"

April 26, 2013

MANAGEMENT: **MR. AJAY SETH – CFO**
MR. S. MAITRA – CHIEF OPERATING OFFICER, SUPPLY CHAIN
MR. MAYANK PAREEK – CHIEF OPERATING OFFICER MARKETING & SALES
MR. PRADEEP GARG – VICE PRESIDENT, FINANCE
MR. RAHUL BHARTI – GM, CORPORATE AFFAIRS

Moderator Ladies and gentleman good day and welcome to the Maruti Suzuki Q4 and full year FY13 Results Conference Call hosted by JM Financial Institution securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touch tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ambrish Mishra from JM Financial, thank you and over to you sir.

Ambrish Mishra Thanks a lot Marina. Good afternoon everyone. On behalf of JM Financial Institutional Securities Private Limited, I welcome you all to the post results conference call of Maruti Suzuki India limited. I also take this opportunity to welcome the management team from Maruti Suzuki today. Without wasting much time I would now like to invite Mr. Nikhil Vyas who will take it from here. Over to you, Nikhil.

Nikhil Vyas Thank you Ambrish. Ladies and gentlemen good afternoon once again. May I introduce you to the management team from Maruti Suzuki. Today we have with us our Chief Operating Officer – Supply Chain, Mr. S. Maitra; Chief Operating Officer – Marketing & Sales, Mr. Mayank Pareek; from Finance we have our CFO – Mr. Ajay Seth; Vice president – Mr. Pradeep Garg; and Mr. DD Goyal and other team members from the Finance. From corporate we have General Manager – Corporate & Government Affairs, Mr. Rahul Bharti. The conference call will begin with a brief statement of the performance and outlook of our business by Mr. Seth 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 under risk that the company faces. And I may also like to inform you that the call is being recorded and the transcript will be available at our website. I would now like to inform our CFO Mr. Seth, over to you sir.

Ajay Seth Thank you Nikhil. Good afternoon ladies and gentlemen, welcome once again to Maruti Suzuki con-call and thanks for your interest in our annual financial results. You would be aware that the year 2012-2013 was a challenging year for the passenger vehicle industry on account of weak economic growth and weak consumer sentiment. The domestic passenger vehicle industry grew by 2.2% in unit sales in 2012-2013. Maruti Suzuki was able to achieve a growth of 4.4% and improve market share by about 1% to 39.1%. This growth was led by the popularity of our new and refreshed model launches and better availability of diesel engines during the year. The market distortion between petrol and diesel vehicles continued for the most part in 2012 – 2013.

The share of diesel vehicles in total passenger vehicle sales increased from 48% in 2011 – 2012 to 58% in 2012 – 2013. Petrol vehicle sales continued to decline for the 2^{nd} successive year in contrast with the rest of the market. Utility vehicles posted a robust growth of 52% and the share of this segment increased to 21% of the passenger vehicle market. A part of this growth was contributed by the company's new utility vehicle Ertiga launched in April 2012. The small car segment of industry was hit the most by inflation, low income growth and high interest rates. Industry sales in this segment declined by 13% in the year. We would like to share that this is not a case of customer shifting to bigger cars; it is just that the small car customer is buying less and the big car customer is buying more. Indian customers rated us number one in customer satisfaction for the 13th consecutive year in the JD Power Asia Pacific Survey.

Exports to Europe were adversely impacted owning to the slow-down in the region. The company was able to increase presence in Africa and Latin America and arrest the decline to 5.5% over the previous year. A strong yen continued to put pressure on the company’s bottom line in the first half of the year. Since then it has turned positive and has given us some benefit in the 4th quarter results. The uncertainty of the yen will continue in the year 2013 – 2014 also. We will continue our program of localization for cost reduction and derisking from foreign exchange fluctuations. Commodity prices remain largely stable. In the year there was a merger with Suzuki power train India limited, supplier of diesel engine and transmissions to the company. This was achieved through share swap. The equity base of the company has gone up from approximately 289 million shares to 302 million shares.

With the merger, the company has brought all his diesel and petrol engine manufacturing in a single entity under direct and integrated management control. This will help in better synergies, cost management and response to market. Including the effect to the merger of SPIL, for the full year, the company registered net sales of Rs. 426,125 million and a profit of Rs. 23,921 million. This was made possible by better average realization and higher sales of our new models like the Swift, Dzire and Ertiga**,** a benefit of foreign exchange rate and cost reduction in localization efforts.

I now come to our outlook for the financial year 2013 – 2014. While there are short term concerns about the Indian economy and the growth of the automobile industry, the company remains positive about the long term opportunity in India. Also we feel from a customer’s perspective it is the best time to buy a car. Most of the capital projects including Manesar C line with a capacity of 250,000 cars and a new facility for diesel engines in Gurgaon with the capacity of 150,000 engines are on schedule to come up in the second half of 2013 – 2014. We procured 700 acres in Gujarat and we are planning the next phase of expansion to come up sometime in 2015 – 2016. We will keep you updated on this plan. The exchange rate has been recently favorable but it is always uncertain and therefore the focus on our localization program will continue to be strong. We hope the year 2013- 2014 comes out better for the Indian economy, auto industry and for Maruti Suzuki. We can now take your questions or observations that you may have. Thank you.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh Firstly on the hedging if you could give some clarity for Q4. What was the hedging position you had, at what rates, and what is it that you have for the next financial year?

Ajay Seth Q4 hedges were close to 90 yen to a dollar. The hedges for the next year that we have taken are about 30% of the total exposure and these hedges have been taken at various rates but the average blended rate would be about 95 yen to a dollar.

Kapil Singh So sir, this is for total exposure or only the direct exposure?

Ajay Seth Total exposure.

Kapil Singh Direct plus indirect plus royalty?

Ajay Seth Absolutely.

Kapil Singh And for Q4 what percentage was hedged?

Ajay Seth Q4 we had hedged almost fully.

Kapil Singh Including the royalty as well?

Ajay Seth Royalty is paid only twice in a year so the hedging of royalty would depend on the period, it's paid in May and it is paid in November.

Kapil Singh No, what I wanted to get was that was there any MTM gain on royalty for the previous quarter as well?

Ajay Seth The MTM of royalty was created based on what the reference rate on 31st March was and therefore there was some gain on account of that mark-to-market. Which is not very large, I think it is about Rs. 50 crores.

Kapil Singh Also wanted to check on SPIL. Is it possible to give the sales EBITDA and PAT numbers for FY13?

Pradeep Garg PAT for SPIL is Rs. 92 crores and sales around Rs. 6,000 crores.

Kapil Singh And EBITDA?

Ajay Seth EBITDA, stand-alone SPIL, would be Rs. 700 crores.

Kapil Singh It should be around Rs. 670 as per my calculation?

Ajay Seth Rs. 671 crores to be precise**.** Yes, you are right.

Kapil Singh Basically your EBITDA has increased from Rs. 550 crores last year to Rs. 670 but the profit after tax for SPIL has not gone up. So just wanted some color on that and how should we look at it going forward?

Ajay Seth So profits have not gone up because the depreciation would have gone up from there, the levels of last year to this year.

Kapil Singh Going forward should we expect full year PAT for this entity to remain at around Rs. 100 crores? Or will there be any changes in margins etc., because of import content or anything of that sort?

Ajay Seth There will be changes to the extent of more localization that happens or cost savings that happens.

Moderator Thank you. The next question is from Pramod Kumar from IDFC Securities. Please go ahead.

Pramod Kumar My question pertains to your direct and indirect, royalty exposure at this point of time and also if you can throw some light on your localization program as to how much has the exposure comedown in terms of your imports and how do you see it in the light of the movement in currencies off late?

Ajay Seth So last year both direct-indirect put together was about 26% of our net sales which is now down to about 19.5% of our net sales. This is as of 31st March 2013. And we will continue to work towards further approving this number in year 2013 – 2014. So as we said we have target of reducing our import content by about 8% to 10% over 3 years we are working on that. So you will first see this number coming further in 2013 – 2014.

Pramod Kumar So there is no rethink on this strategy because of the way the currency is supposed to move. In terms of yen, it has been largely talked about remaining or structurally settling at a 100 kind of a level. So there is no rethink on…?

S. Maitra When we are going for localization it is actually a total activity of investing into equipments and then manufacturing it locally and once that decision has been taken there is no question of going back on this. There is obviously a long gestation period. So, like once the decision has been taken probably the real localization happens after 1.5 years or 2 years. So therefore this process is already on.

Pramod Kumar And my 2nd question would be sir how would you view your market share and margin as a balance for FY14 because FY13 we did extremely well, we gained market share in the car segment but lost some in the MPV. Even Ertiga did help us. But Omni and Eeco we have lost market share. And margins are now settled or coming much above 10% point. So what will be the idle market share-margin balance that you would like to maintain for FY14?

Mayank Pareek I will answer about the market share, market share yes, you are right we gained market share by 1% last year and it stands at 39.1%. Our endeavor will be to hold on to that type of market share.

Pramod Kumar And margin? Will you be investing more in marketing initiatives and all that as well? Am I looking at what could be the probable margin range which will be comfortable?

Ajay Seth Whatever is required to be done for the purpose of marketing we will spend the requisite money there for sure but at the same time we will also work towards our own internal targets on various cost reduction initiative that we keep running every year. So whether it is localization, value engineering, value analysis or it is on other areas of cost reduction. So, we will work towards those efficiencies to make sure that the margins are protected. But we will invest requisite amounts where ever they are required to be invested.

Pramod Kumar Finally on the new fuel efficiency norms by the Government which is supposed to be mandated very soon. How comfortable are we in terms of achieving it in the next 3 years?

Rahul Bharti The fuel efficiency norms are for long term, they go up to 2015-2017-2020-2022. So we are looking at all the right technologies to be the best in fuel efficiency which is a USP of Maruti Suzuki.

Pramod Kumar So, Rahul, just wanted to understand as in will it be dramatically difficult for companies like you to achieve it or you see in the normal course of business you should be able to achieve it without any significant jump in capex and investment in technology?

Rahul Bharti No, it is in the normal course of progress. We keep doing and it's for the good of the customer, it's for the good for the environment also.

Moderator Thank you. The next question is from Govind from Jefferies. Please go ahead.

Govind I had a couple of questions, one was on the export market. Could you give us some details on what was the total CAPEX for the 4th quarter? As well as could you comment on all the initiatives that you have right now on the export side?

Mayank Pareek See over 3 years back we took a conscious call that in lieu of Europe slowing down which accounted for almost 75% our sales. We needed to develop alternate markets and we went on to develop markets in Latin America as well as Africa and ASEAN countries. So in 3years, dependence on Europe which was 75% has come down to now 25%. That means 75% of our sales are going to Non-European markets. We have got extremely encouraging response from markets in Africa and Latin America and even ASEAN. And for this virtually we need to develop new markets, need to do product matrices there, penetrate deeper there, and understand the customer, all the work that is required for marketing. The sub total result of this is that our export to non-European market has done really well.

Ajay Seth Our kit revenue this year was Rs. 626 crores.

Govind Rs. 626 crores for the full year.

Ajay Seth Right.

Govind Can you give the actual realized currency both on JPY for 4th quarter as well as on the export side of the USD and also the average discounts on car?

Ajay Seth On the JPY our net rate on the 4th quarter was 0.64 that is Yen to a rupee, on dollar – rupee our realization on the export side was at 54.40.

Govind And discounts?

Ajay Seth Discounts in the 4th quarter were at Rs. 10,500.

Govind This is Rs. 10,500 as compared to Rs. 12,000 in the 3rd quarter?

Ajay Seth That's right, gone down.

Moderator Thank you. The next question is from Rashi Talwar from Ashmore India. Please go ahead.

Rashi Talwar Exactly just taking off from where Govind left was on the discounts on the cars. So how is that movement really working between petrol and diesel versus last quarter and again, are you seeing incrementally, what are you seeing on petrol sales versus diesel sales and what is your outlook on that front?

Ajay Seth See discounts in quarter 4 have actually come down compared to quarter 4 of last year. Now it is partially because of larger diesel mix in Q4 compared to Q4 of last year. On diesel we have no discount so on an average the discounts actually came down. On the petrol cars the discounts have been high and I think they are at a level which they were at in the 3rd and the 2nd quarter.

Rashi Talwar So no improvement there?

Ajay Seth No.

Rashi Talwar And incrementally on sales, incrementally mix between petrol and diesel?

Mayank Pareek Yes Rashi this is Mayank. See if you see, dieselization of passenger car started happening around 3 years back. That time 35% of total sales were diesel which stands for more than 58% in the last fiscal. Now of course there is some movement in terms of diesel price and Government has announced that every month there will be increase in the diesel fuel price. But we think that basically this should settle at around 50-50, 50 petrol 50 diesel. I do not think it will go below that.

Rashi Talwar Yes sir that is correct but incrementally what is the mix are you seeing? Has it improved from the 58 that you reached, has the inflection happened or with the diesel price increase is happening or is it still there only?

Mayank Pareek No, as of now we have not seen any change at the ground level, at the show room level it is still the same.

Moderator Thank you. The next question is from Mahantesh Sabarad from Fortune Equity. Please go ahead.

Mahantesh Sabarad I just wanted to know what was the royalty for the quarter? In December quarter it was about 5.6% compared to that what was it this quarter sir?

Ajay Seth This quarter it was at 4.8% on stand-alone accounts.

Mahantesh Sabarad And in absolute amount term sir?

Ajay Seth In terms of absolute amount royalty in this quarter was 605 crores, stand alone.

Mahantesh Sabarad That brings me to the 2nd question. How should we look at the royalty expenditure now because your top line as a merger entity remains the same.

Ajay Seth Yes, the topline would not grow but the same time the material cost will significantly come down so the effect really is coming on the material cost and corresponding effect of the conversion cost will come in respective line items. Royalty, if you compare quarter 4 standalone with the merged entity, will go up from 4.8% to 5.3%.

Mahantesh Sabarad Considering that the Yen remains where it is right now around the 100 mark to the dollar?

Ajay Seth This would have been at a slightly lower Yen it would not be at the current levels. So this would have been at the levels of March 2013 whatever the level of Yen was. I think it was 94 that time.

Mahantesh Sabarad In terms of material cost that you mentioned that once the merger happens it will be of course reduced but then what would be the total import content then with SPL merger for you as a a) stand-alone entity, I remember you answered one call saying that the total import content is 19.6% of sales. That’s indirect plus direct put together, am I right? And what would be the direct out of that?

Ajay Seth See the indirect import content would be about 11.6% and the direct import content would be at about 8%.

Mahantesh Sabarad And that would be more or less the same as we move forward into the next year, barring localization efforts?

Ajay Seth Right.

Mahantesh Sabarad And the target you had mentioned was 7% - 8% points you would like to reduce and that is in one year’s time sir? Or should we look at it at a 3 years’ time?

Ajay Seth 3 years' time.

Mahantesh Sabarad Right sir I think that fairly answers my question.

Moderator Thank you. The next question is from Hitesh Goel from Kotak Equities. Please go ahead.

Hitesh Goel Actually in this quarter versus last quarter have you seen most of the benefit on the indirect and direct side at 90 yen, basically. And some benefit will obviously come through because you are at 95 FY14. But just wanted to get clarity because we were not taking the indirect benefit in this quarter. So had the benefit in indirect imports also come through on a QoQ basis in this quarter?

Ajay Seth See direct benefits would have more or less come through, royalty benefits would have come through. Indirect is on a quarter lag. That will hit us in the first quarter of next year.

Hitesh Goel And how is the discount trend moving in April. Basically has there been an increase because most of the discounts I think would have started increasing in February end or March, so is there an increase from the 10,500 levels that you envisage in first quarter?

Ajay Seth Discount is more or less same as last quarter.

Hitesh Goel So it will be 10,500 only?

Ajay Seth Yes, around that.

Moderator The next question is from Raghu Nandan from Asian Market Securities. Please go ahead.

Raghu Nandan The impact of currency benefit as I understand is spread across various line items, what would be the cumulative impact?

Ajay Seth The cumulative impact in this quarter over last year of currency is about 130 basis points, so this is spread across royalty, indirect imports, and direct imports.

Raghu Nandan There has been a significant jump in the other income, is there any extraordinary there?

Ajay Seth No, there is no extraordinary, it is the way we invest our surplus funds, portion of it is invested into fixed maturity plans. So therefore the income accrued in this quarter.

Raghu Nandan On the tax rate part again. The tax rate seems to be lower compared to the previous quarter, how would you see it going forward?

Pradeep Garg The tax rate would be around the same levels going forward also because tax shield that we have for tax-free income and certain capital expenditure would continue going forward.

Raghu Nandan What would that rate be? Would it be about 24 to 25% or would it be lower?

Pradeep Garg It would be slightly lower, it would be in the vicinity of 21 to 22%.

Raghu Nandan On the CCI inquiry of exclusive supply arrangement of parts and diagnostic tools, any comments on the same?

Rahul Bharti The case is sub-judice, so we would not like to comment.

Raghu Nandan If I can have one small clarification like do you see a recovery in the petrol vehicle sales like couple of financers have mentioned that the demand of petrol vehicle is returning and I think one of your peers also commented that they are seeing an increase in the contribution of petrol vehicles in the overall sales, are you seeing any such trends in your sales mix?

Mayank Pareek I think it is too early to comment on that as of now we have not seen a real significant movement in the direction.

Moderator The next question is from Pramod Amthe from CIMB. Please go ahead.

Pramod Amthe Two questions, one is what has been the impact of mark-to-market of the hedges on your P&L this quarter?

Ajay Seth There has been a 40 basis points impact of mark-to-market on various hedges.

Pramod Amthe Second, considering that this quarter has been surprise to many analysts, going forward in terms of your market share strategy or the way you want to position your new products, what will be the thought process when they are at 100 yen versus, might be, at around 80-85. Or you want to re-evaluate some of the products which may be doing poorly into the market?

Mayank Pareek I think products are not positioned considering what is the exchange rate, products are positioned considering what the customers want and where do we want to take our products, so that strategy rarely does not change with respect to exchange rate and thank God for that. Then we will be changing our strategy every day. So we continue to offer our customers products and services which are superior in value and that is what our core strength and we continue to do that.

Moderator The next question is from Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh Actually going back to some of the questions asked earlier, discounts have reduced from 12,000 in December quarter to around 10,500 in the March quarter, but when I look at diesel contribution, diesel share was higher in December quarter versus the March quarter, so on a sequential basis what really led to the discounted reduction?

Ajay Seth From Q3 of this year discounts have come down. From 12,159, they have come down to 10,597.

Binay Singh Yes which is actually a bit surprising because diesel as a proportion of sales was higher in December quarter, so this quarter diesel shares has actually gone down for you, so you were around 40% of sales in December quarter, you're 36% sales is this quarter, which means that either petrol discounts have come down, so just want to understand that maybe I have some data?

Ajay Seth Are you looking at a percentage or are you looking at absolute volumes of diesel in 3rd Quarter and 4th Quarter because sales in 4th Quarter are much larger than sales in 3rd Quarter, so therefore absolute volumes should be different and therefore discounts on an average vary. So diesel proportion has actually gone up from Q3 to Q4. The total number that we sold in Q3 were 107,000 now we have sold 112,000. There will be some impact per vehicle discounts on this volume.

Binay Singh So secondly we have been talking of localization plan earlier we used to mention that localization will actually lead to benefit for us in terms of components would be cheaper if you make them domestically when Yen is at 100 does that benefit still remains?

S. Maitra Yes definitely it will remain.

Binay Singh So you could quantify like earlier we used to say that it could be close to 100 basis point plus margin gain eventually when you are able to do an entire 6-7% drop in exposure, what will be the number at these rates?

S. Maitra To quantify that in terms of margin improvement is difficult but we can say that at least 10 – 15% saving would still be possible if Yen is at 100 or whatever we localize.

Binay Singh And moving on to SPIL, will the depreciation charge on annual basis in SPIL will drop in FY14 because your assets must be going through that eight years cycle. So if so what is the percentage drop?

Ajay Seth We will get back to you on the exact amount that will drop but yes the eight years get complete in 2014-15. That's when the initial plan was capitalized and once that is over then you will see a drop in depreciation.

Binay Singh Sir lastly just a question for Mr. Mayank Pareek. Earlier this month he gave a comment that he is seeing some bit of improvement at the ground level, just to hear his thoughts more on what exactly sort of drove that commentary?

Mayank Pareek Yes actually what we are seeing at the ground level is that customer inflow is little better than what it used to be last year. And that is why the industry which grew only 2% last year this year we are forecasting 5% or so. So that means that it will be almost double the percentage growth of what happened last year.

Binay Singh It wasn't just a March phenomenon because March generally sees a pickup in customer foot falls and all.

Mayank Pareek No, March is just one month but overall I think this year SIAM has forecasted we should see growth of 5 - 6%.

Moderator Thank you. The next question is from Chirag Shah from Axis Capital. Please go ahead.

Chirag Shah First question is a follow up on this lowering of import content, this 19.6% would also be because of the merger of SPIL from 26% last year to 19%. Is it like-to-like comparison?

Ajay Seth Chirag it is exactly like-to-like comparison because when we take import content, we take both direct and indirect import content.

Chirag Shah And this is in rupee term you are talking about or it would be in Yen denomination.

Ajay Seth This is in rupee term that I am talking about.

Chirag Shah In terms of Yen denomination how would it be at similar levels? What would be the drop over there?

Ajay Seth So part of it would have come because of the Yen improvement. So from 26% half of it that you see came because of the currency improvement and half of it because of the localization efforts put in.

Chirag Shah Second point was on depreciation percentage as a gross block for SPIL, can you just share that number?

Mayank Pareek We will get back to you on that we don't have the exact number.

Chirag Shah Because in Maruti standalone these are at 4.5%.

Mayank Pareek I can give you the total depreciation charge on SPIL is 481 crore for the year.

Chirag Shah Is it possible to share the gross block of SPIL?

Mayank Pareek We will get back to you on that number. We don't have it immediately.

Chirag Shah One question on this discount that you highlighted, even if I take the number that you said on the diesel mix between Q3 and Q4 and if I proportion the entire discounts for the quarter only on petrol vehicles even then there is a reduction in discount sequentially from something like Rs 18,700 to Rs 15,700. Would it be because of new Alto or some new products were launched. Can you run through what introductions you did in terms of products?

Mayank Pareek Yes Chirag I will add there. When you say discounts on petrol there are some petrol models where there is no discount, for example, Dzire petrol and Swift petrol we don't give any discounts. So while their numbers may have increased there is no discount so you will find the net change. Of course the new Alto when we launched on 16th October last year that also gave us benefit. Discount on that were relatively lesser than what it used to be earlier.

Chirag shah Last question would be on Ertiga. Can you just share some thoughts because discounts on Ertiga are coming back and while discount month-on-month we have seen reduction across products for Maruti except for Ertiga and also volumes of Ertiga are now stagnating in a sense. What is your thought process on Ertiga and what is the kind of potential you have for Ertiga?

Mayank Pareek Yes as you know Ertiga was launched 24th April, 2012, and first year it has sold around 80,000 vehicles and is among the top 10 selling car so that proves that it has really created a place for itself in Indian market. As far as discount goes, it is actually function of the overall market and what competitors are doing and naturally you need to respond to that. Still if you see discount on Ertiga are actually very well controlled and product is doing really well and it is bringing incremental sale to us.

Chirag Shah Just want to understand what is the kind of opportunity you see for Ertiga in current form, in terms of growth opportunity, in terms of customer diversification, and in terms of product reach? Is it well-reached to all the interiors in terms of acceptance or there are still opportunities to explore for you?

Mayank Pareek Yes acceptance wise I think it has got all India otherwise it wouldn't have sold 80,000 in the first year itself and naturally it's an ongoing process we continue to find new niches and new areas to promote the brand.

Moderator Thank you. Next question is from Jamshed Dadabhoy. Please go ahead.

Jamshed Dadabhoy Could you give us a sense of what was your cash CAPEX in FY13 and what it will be like for FY14 and FY15?

Ajay Seth The cash CAPEX this year was 2,700 crores and we have said earlier that we will be incurring about 3,000 crores CAPEX next year.

Jamshed Dadabhoy This is including SPIL right.

Ajay Seth This does not include SPIL.

Jamshed Dadabhoy No, including SPIL since it is now consolidated in the books how much would it be?

Ajay Seth I will have to get back to you on the exact number on that account.

Jamshed Dadabhoy Would it be a meaningful number?

Ajay Seth No, it will not be a very big number.

Jamshed Dadabhoy Could you give some sense on how you all are planning to utilize the diesel capacity or the diesel engines once they come through? I guess the question is that you will have about 700,000 diesel engines and then you will have petrol capacity of another 700,000 odd, so how do you look to balance this assuming that petrol/diesel the mix shift slightly back in favor of petrol?

Mayank Pareek See, Jamshed, if you see overall market, total in the industry 58% has been the diesel demand against our share of diesel that is only 37% of sales. So, we are still catching up. I think we have enough demand in the market to absorb the additional capacity we are creating. In fact this is a reactive capacity not a proactive capacity in anticipation of something. So we are quite confident about what is coming and will be able to absorb it.

Jamshed Dadabhoy Is there any sense that lets say that the petrol demand swings back sharply from say 80 – 20 or 70 – 30 to say 60 – 40 or 50 – 50 you all would have unutilized diesel capacity. Is there any plan or thought process that you will have a model which will plug this, for example, a cross over or a SUV or something.

Mayank Pareek At this stage this looks like a very hypothetical questions and actually answering to a hypothetical question is hazarding a guess, so let's wait for some other time to discuss this.

Moderator Thank you. The next question is from Govind from Jefferies. Please go ahead.

Govind It's a follow up questions to the few questions that have come earlier. So we have seen a huge movement across segments of the car industry between small cars, large cars, and UVs and between petrol and diesel. Now over the next 3 years, how have you planned your new model launches? Where is most of your focus in terms of both the fuel option as well as in terms of which segment you will be focusing on?

Mayank Pareek As a market leader our stance is that to maintain and sustain the leadership, we need to be present in all those segments and this is what we will continue to do. We follow basically three-prong strategies. One is to continue to reinforce our existing line up by bringing new technologies like couple of years back we introduced K Series engine to really revamp all the products. Second strategy is to launch new products in existing segments and we reinforce as you know we follow multimodal strategy in each segment. So, Alto F8 was there, we launched K10 so this is the second strategy and third strategy is to continue to launch new products and create new segments example of that is Ertiga and needless to mention we need to follow all the 3 strategies going forward which we will keep on doing.

Govind Is it fair to say that right now while you have done extremely well with Ertiga in the UV segment, your market share of mid-teens is much below where it is for the small car segment and would it be fair to say that you would be targeting market share in UV similar to what you have in small cars?

Mayank Pareek These are some obvious conjectures which you can make but as a company policy we would not like to talk about future product line ups.

Govind I am asking for the direction over the next 3 years.

Mayank Pareek Direction I gave you, we will follow this three-prong strategy for new product development and as you know in the car industry product line ups are developed much in advanced. We work almost on 10 year rolling program for new products and we are working on that. But more than that please appreciate it will not be fair to share product specific information at this stage.

Moderator Thank you. The next question is from Sonal Gupta from UBS. Please go ahead.

Sonal Gupta Because there is a very sharp margin improvement, you had 8.1 % EBITDA margin last quarter and 10.6 this quarter. So on a sequential basis can you just breakdown how much is coming because of price increases, how much is FX, how much is MTM gain, can you just break that down for us?

Ajay Seth There has been actual material cost reduction from Q3 this year to Q4 of this year.

Sonal Gupta Would that be Yen benefit or is that something else.

Ajay Seth Some Yen benefit and in fact in material cost only a small portion of Yen benefit would have come because indirect compensation is with the quarter lag. So, indirect rates are still of the 3rd quarter. I will come to the specifics. So second is of course that we had a January price increase so there were some corrections because of that. Third of course is on account of exchange rate on direct imports as well as on the royalty so you see a major effect on royalty going down and then there are other small reasons but a material cost reduction has been 130 basis points which is partially because of the Yen and largely because of the cost reduction and localizations. Exchange rate impacts from the 3rd quarter or 4th quarter is favorable by 120 basis points.

Sonal Gupta And the raw material cost you said was 130.

Ajay Seth Yes. Selling price is giving us about 1%. Other operating income is lower by about 30 basis points so that makes up for our increase.

Sonal Gupta This is a housekeeping question in terms of your rural sales for the full year how much is that and just the industry how much did the petrol cars declined by in FY13.

Mayank Pareek Yes as far as rural market is concerned our rural sales increased by almost 18.5% last year and it accounts for around 28% of our total sales.

Sonal Gupta What is the industry growth of diesel and petrol would you be able to share those numbers?

Mayank Pareek Industry actually in petrol has shown a degrowth industry has declined by 17% and diesel has grown by 23%

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

Srini My question is particularly on the demand side the entry level demand are you seeing any signs of you know even strengthening minimally or footfalls increasing at your dealerships, any feedback on that would be useful.

Mayank Pareek No. As of now no Srini we are not seeing that demand up.

Srini So it still continues to the same trend which we saw in the last 2 to 3 quarters.

Mayank Pareek You are right.

Srini And sir more generally on the discounts which you are seeing from the competition, are you seeing stability or you are seeing potentially increasing in pockets.

Mayank Pareek Actually they are stable only for the reason because they are at the peak actually.

Srini Fair enough. You see there is very little room for actually it to go up.

Moderator Ladies and gentleman due to time constraints we will take one last question from Anish Shah from Quantum Advisors. Please go ahead.

Anish Shah I just had 2 questions, one was on the labor situation. Can you just comment on how stable is that and what are their current demands or grievances? And second question is pertaining to the generally it looks like many of the commodities will still see weaker prices going ahead so does that in any way change your strategy of procuring? Would you be buying more of your future requirements now and how does it actually affect the margin, if you can briefly comment on these two?

Rahul Bharti I will take the first question. The labor situation is quite peaceful and we have good relation and communication on the shop floor.

S. Maitra As far as the commodities are concerned you know we basically do a 3 monthly or a 6 monthly contract and whenever the prices are down we generally tend to make a contract at that point in time so therefore definitely going forward we see that probably you know our expenses will be marginally down.

Anish Shah But from a labor issue point now things are stable. There are no fresh demands and at least foreseeable you are not seeing any challenges over there.

Rahul Bharti No, nothing of that sort.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to handover the conference back to Mr. Ambrish Mishra for closing comments.

Ambrish Mishra Thank you Marina. On behalf of JM Financial Instructional Securities, I would like to thank the senior management team of Maruti Suzuki India Ltd. for taking their time out for this call. I would also like to thank the participants for their participation. Thanks all and have a nice day.

Ajay Seth Thanks Everyone.

Moderator Thank you very much. On behalf of JM Financial Institutional Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.