

Transcript

Conference Call of Maruti Suzuki India Limited

Event Date / Time : **26th April 2016, 04:00 PM IST**

Presentation Session

Moderator: Good afternoon ladies and gentlemen. I am Momita, moderator for this conference call. Welcome to the Maruti Suzuki Q4 FY16 results conference call. At this moment, all the participant lines are in the listen only mode. Later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note that this conference is recorded. I would now like to handover the floor to Mr. Sonal Gupta from UBS Securities. Please go ahead sir.

Sonal Gupta: Thanks Momita. Good afternoon everyone. On behalf of UBS Securities, we are delighted to host the senior management team from Maruti Suzuki for this earnings call, post the announcement of their Q4 and FY16 financial results. I would now like to pass on the floor to Mr. Nikhil Vyas from Investor Relations team at Maruti Suzuki to introduce the management team and take the proceedings forward. Over to you, Nikhil.

Nikhil Vyas: Thank you, Sonal. A very good afternoon to all the participants. May I introduce to you the management team from Maruti Suzuki. Today we have with us our CFO Mr. Ajay Seth, Head of Marketing and Sales, Mr. Kalsi, Head of Supply Chain, Mr. D.K. Sethi, Vice President – Finance Mr. Pradeep Garg and other team members from the finance. The con-call will begin with the brief statement on the performance and outlook of our business by Mr. Seth, after which we will be happy to receive your questions. May I remind you of the safe harbor? We may be making some forward looking statements. 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 and the transcript will be available at our website. I would now like to invite our CFO, Mr. Seth. Over to you sir.

Ajay Seth: Thank you Nikhil. Good afternoon ladies and gentlemen. Thank you all for your interest in the annual financial results. During the year 2015-2016, India's economy showed slow recovery as compared to the previous year. Inflation was under control and interest rates came down. The fall in global prices of oil and commodities benefited the economy and the automobile sector. However, rural demand remained weak. In this setting, India's passenger vehicles market grew by 7.2%, compared to 3.9% in 2014-2015, mainly achieved with the help of new models and continued support of sales promotions. However, like the previous year, the growth was limited to a few manufacturers. The company was amongst the few companies that posted positive growth during the year, increasing domestic sales by 11.5%. It is fifth year in a row, when the company's market share improved over the previous year. It stood at 46.8%, the highest in seven years.

The company's product related initiatives contributed significantly to higher sales and market share. The company launched S-Cross, India's first premium crossover, Baleno, a premium hatchback and Vitara Brezza, a compact SUV. These were appreciated by customers for their design, performance and features. The share of diesel vehicles in the industry sales declined from 48% in 2014-2015 to 44% in 2015-2016. The company was able to grow sales of its diesel vehicles through higher sales promotions, besides introduction of smart hybrid technology on few of its popular diesel vehicles.

The company launched a new retail channel NEXA. This helped expand the company's presence, especially in the metro and the tier-II cities. NEXA is designed considering the changing needs and expectations of urban customers and it will enable the company to attract new category of buyers into its fold. The company increased its share in the top ten markets of the country. Rural demand moderated following second successive year of below normal monsoon, leading to a drought like situation in some parts of the country. The company was able to grow sales in small towns and rural areas by 9%, largely by expanding reach to newer towns and villages.

The company's export grew by 1.8%. The fall in the global commodity prices and currency crisis in certain markets adversely impacted demand. But, exports received a boost with the launch of Baleno in the overseas markets in the fourth quarter. Baleno is the first model of the company to be exported to Japan, manufactured only in India and it is to be exported to nearly hundred countries.

The company helped customers quickly restore their vehicles affected in Chennai floods. The company in record time restored close to 9000 damaged vehicles, bringing normalcy in the everyday lives of customers. Securing first position in the JD Power customer satisfaction survey sixteen times in a row, a world record, is testimonial of the company's efforts in enhancing customer satisfaction.

Total sales at 1,429,248 units were the highest ever for the company, registering an overall volume growth of 10.6% over the previous year. With this, the company has registered a net sales of Rs.563,504 million and a net profit of Rs.45,714 million; a growth of 15.9% and 23.2% respectively, over the same period last year. Besides higher volume, the company was helped by favorable commodity prices and continued efforts on cost reduction initiatives. Marketing and sale expenses remained high to support entry level models and diesel variants in the top markets.

Going forward, business environment in financial year 2017 looks to be mixed with positives like expectations of good monsoon, lower interest rates, lower oil prices etc., and not so favorable factors like weak global economy, pressure on sales of diesel models, low job generation in the economy.

The company has consistently grown faster than industry in the context of an overall market slowdown. It will continue its efforts and work hard on sustaining and improving quality in all areas of business, besides continuing to offer technology and innovations that enhance the car ownership experience of customers in India and abroad.

We can now take up questions, feedback and any other observations that you may have. Thank you.

Question and Answer Session

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Sir, we have our first question from Mr. Kapil Singh from Nomura Securities. Please go ahead sir.

Kapil Singh: Sir, congrats on a very good set of numbers. I just wanted to understand few things on the results. Firstly, on the average realizations, we have seen a pretty strong improvement this quarter. So, is it that we are selling very good variant mix on models, where there is a waiting list and if this kind of product mix is expected to continue?

Ajay Seth: Kapil, there are two reasons for it. One is the product mix, of course, because we have launched the Vitara Brezza and the Baleno, for which the numbers have been increasing. That is one. Second is that the discounts in this quarter were lower compared to the third quarter, by almost Rs.4,500 per car. The combination of these two have resulted in this increase in realization. Going forward I think you should continue to see this kind of a realization, because the mix should not change too much.

Kapil Singh: Okay, great. And sir, secondly on the cost line items, we have seen a very good improvement in gross margins. But, we have also seen simultaneously, one of the highest staff cost and other expenditure to sales. So, any color you could give there, like what are the factors that resulted in such a sharp change QoQ?

Ajay Seth: So, one thing that we have been talking about is that our marketing spend is going to go up, because we are now focusing on a lot of activities around our new models as well as the NEXA channel that we created. We had given the guidance even last time that our marketing spend is going to go up. That is one bit. Second, With regards to the employee cost, you have to create provisions for various schemes like gratuity, etc. So, that is one bit. Second, we had some staff welfare activities, like 15 million cars celebration. We had given mementoes to all employees of the company and so on. So, some of them could be one off. But, some of them will be recurring in nature.

Kapil Singh: Okay. And on the other expenditure side. There is also some mention of royalty reinstatement.

Ajay Seth: So, there is royalty reinstatement from third quarter to fourth quarter with the effective exchange rate as of 31st March and a 40 basis points impact that you see in the royalty of this current quarter is on account of this reinstatement.

Kapil Singh: Okay. And sir, last question is on CAPEX. How much did we end this year with? What was the break down especially on maintenance and other line items if you can give? And any guidance you have for next year?

Ajay Seth: Total CAPEX this year was 2400 crores. And broadly again in the category of products, marketing spend, infrastructure spend, R&D and annual maintenance capital expenditure.

Kapil Singh: What is your approx. annual maintenance capex?

Ajay Seth: Our annual maintenance CAPEX is in the vicinity of about 600 -700 crores.

Kapil Singh: Okay. And sir, next year what are we looking at, because our initial guidance was 4,000 crores?

Ajay Seth: So, some of the projects have got deferred to next year. So, marketing infrastructure spend has got deferred to next year. So, we have proposed a budget of 4400 crores.

Kapil Singh: And if you could give some color, like what would be the breakdown of that?

Ajay Seth: So, about 40% of this will be on the new products.

Kapil Singh: Okay. Thank you sir.

Moderator: Thank you. The next question comes from Mr. Pramod Kumar from Goldman Sachs. Please go ahead sir.

Pramod Kumar: Thanks a lot for the opportunity. Sir, my first question pertains to the JPY impact. You have referred to the royalty 40 bps spilling over from Q3, because of reinstatement. Similarly if you can throw some more color on the JPY impact, what you have to take this quarter, so that we can get a sense as to how much of the current spot rates in terms of, how much of that has already passed through the P&L and how much could be the incremental impact from the next quarter onwards? And this is of course in the context of your export revenue as well, because I think that has also worked very well this quarter? So, if you can provide some color on that?

Ajay Seth: So, if you were to look at the impact of JPY on a sequential basis, Q4 over Q3, the impact would be about 100 basis points in all, so partially on the royalty and partially on the other items. So, that is the net impact on account of the exchange fluctuations on quarter three to quarter four.

Pramod Kumar: And this includes the 40 bps because of the reinstatement pertaining to Q3?

Ajay Seth: That is right.

Pramod Kumar: So, net only for the current quarter is like 60 bps ?

Ajay Seth: That is right.

Pramod Kumar: Okay. So, the indirect vendor hit has not come in, in a major way yet?

Ajay Seth: No, because so far the rates that had been taken are the quarter three rates, because there is a quarter lag as far as the vendor compensation is concerned. So, the quarter four rates will come in play in quarter one, next year.

Pramod Kumar: What could be the kind of movement on the indirect vendor exposure, so that in a way we get a sense?

Ajay Seth: So, Quarter four rates we can now calculate because that quarter is over. Our average rates would be close to about 0.57-0.58. So, there will be some impact on account of exchange fluctuations in Q1. . But, I think the real impact would be seen in the second quarter, because if the rates were to continue at the levels where they are now, then it might go up in Q2 and Q3.

Pramod Kumar: But, what is the mitigation strategy here sir for JPY, in terms of any accelerated localization what you can work on, or probably more focused export push towards certain geographies? What is the JPY mitigation strategy here?

D.K Sethi: As far as localization is concerned, there is a strong focus within the organization on localizing the imports. They could be yen imports or dollar imports. So, that process is always on. And that will remain on in 2016-2017 also.

Pramod Kumar: Okay. But, any particular number you would like to share as to what is the current localization because in the last few years you have been talking about 150 bps kind of improvement year on year?

Ajay Seth: We have said that now bulk of the localization has happened. Now, what we are left with is not so easy bits, because there are electronics which will have long lead time for localization. But, there are some other items which we are concentrating on and trying to see that they get localized fast. But, at the same place, there are some more items that gets added on when you introduce a new model, So, net-net don't expect too much of a reduction in localization, in a smaller timeframe. Long term strategy continues to be to localize as much as we can.

Pramod Kumar: And sir, final thing is on the land investment. Just wanted to understand, how has been the progress so far and what are we looking at, more on the top metro markets or the smaller city markets. How that 800 crores or what is the allocation going to be? Just wanted some broad color? And I was looking for the export revenue number as well.

R.S. Kalsi: There are couple of areas where we are planning to invest from marketing and sales point of view. Now, one is in our regional office cities, we are setting up our own regional offices. So, we will be buying land for that. And then we have already set up regional warehouses as well as transit vehicle parking stockyards at Bangalore and Nagpur, which are operational. And apart from this, we are also identifying areas in the metros as well as sub-metros, where we can build showrooms. And these showrooms can then be given to our dealers to operate. As, there may be some areas, where the dealers may find lease rentals or even buying the land expensive. So, we are identifying strategically such locations and prioritizing accordingly.

So, that is broadly our plan. And our specialized team has been put in place with a proper organizational structure to take care of this activity exclusively.

Pramod Kumar: Thanks a lot sir. The last thing is the export revenue number, if you can share that.

Ajay Seth: For the quarter the export revenues were at 1382 crores and for the year it was at 5137 crores.

Pramod Kumar: 5137, thanks a lot sir. And best of luck. Thank you.

Moderator: Thank you sir. Sir, we have the next question from Mr. Basudev Banerji from Antique Finance. Please go ahead sir.

Basudev Banerji: Congrats sir for the great set of numbers. As on media, Mr. Bhargava said that the main priority will be to ramp up Baleno capacity. So, if you can highlight the present capacity, breakup between export and domestic and how much you wish to ramp up and whether it will be fungible with other models or it will be pure incremental?

Nikhil Vyas: As far as the Baleno is concerned, we are producing over 10000 units a month. And, we are looking at various options to increase volumes.

Basudev Banerji: But, any ballpark figure where this 10,000 can move up to?

Nikhil Vyas: There are lots of variables which need to be considered while increasing the capacity. So, we are studying at our end and we will let you know at the right time.

Basudev Banerji: Sure. Second sir, what was the diesel volume this quarter?

Nikhil Vyas: 99,168 were the diesel sales.

Basudev Banerji: And third thing sir, as the exports, now with the Baleno coming in and you have been focusing on export through Baleno, so any broader guidance on the export growth with this new model for FY17?

Nikhil Vyas: Looking at the overall condition in the global markets, export isn't likely to give much growth. We can expect a flat growth.

Basudev Banerji: So, typically monthly Baleno export will be broadly...? 2000?

Nikhil Vyas: We had indicated about 50,000 for the whole year. So, accordingly the monthly volumes.

Basudev Banerji: Okay. So, if one does that exercise and ex of Baleno, your existing exports will decline severely, will it be right to assume then?

Vivek Kumar: So, as you might be aware, Sri Lanka was one of the key markets during FY16. Sales to that market is going down, because of the increase in duties. So, that will be replaced by Baleno exports and they will compensate for the loss of Sri Lanka. And net-net we will end up flat on exports.

Basudev Banerji: Sir, raw material prices, steel and other metal prices have started inching up over last few months. So, what is your view on that and the impact on your margins, when it will impact on the lag basis, if you can just throw some light on that?

Ajay Seth: So, we will have to keep watching raw material prices, the commodity prices and also the forex as we mentioned earlier. We have a hedging policy on commodities. So, we try and hedge some exposure at a given point in time. Yes, there has been an uptake on commodities. But, it is too early to say where they are heading. We have seen the best of commodities last year. We should be prepared to accept some increase this year. We will try to protect whatever we can protect by hedging. At the same time, we are going to conclude our contract for steel for the first half, which we are going to do pretty soon. So, that will insulate us for at least the first half. But yes, we should be prepared for some increase on account of commodity prices, because in the last couple of weeks they have shown some increase.

Basudev Banerji: Sir, last question is on tax rate increasing so much sequentially, is it just an year end balancing phenomena or how to look at the tax rate down the line?

Ajay Seth: This is year-end balancing phenomena exactly. Effectively we have had a tax rate of about 24%-25%. But since, from this year, we stopped recognizing the other income in the P&L account, so we had no tax free income to take shelter of on a tax shield. From next year I think we will again start seeing a rate of between 25% to 26%, because we will start again recognizing tax free income in our books, as we move to IFRS accounting. So, effectively the tax rate for the full year was 30% this year. But, you should see that going back to about 25%-26% from the next year onwards.

Basudev Banerji: Sure sir. That's great. Thanks.

Moderator: Thank you sir. Sir, we have the next question from Mr. Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Hi sir. My first question is on the realization side, you indicated because of lower discounts and some product mix improvement helped realization improve QoQ. Was there also any price increase which would have helped? I believe you would have taken some price increase in January and then in March.

Ajay Seth: Price increase was, very small. So, it is largely on account of the two factors that we talked about.

Jinesh Gandhi: Okay. Secondly, if we look at the FX impact, you had indicated we have hedged at 58. So this will be till 1Q or it will be also for second and third quarter as well?

Ajay Seth: So, when I said 58, it was not hedging rate. This was basically the quarter end rates at which we have reinstated the royalty liability. All our hedging on dollar-yen would have been at various rates starting from 120 level going down to about 111 or 112 levels. The average would be about 114-115 level.

Jinesh Gandhi: Okay. And normally we will still follow six months forward or.....?

Ajay Seth: Our hedging policy is to hedge the first month fully, the second month is two-third hedged and the third month is one-third hedged.

Jinesh Gandhi: Okay. Right. And sir the third question pertains to the Gujarat plant. Chairman had mentioned on TV that we will be trying to commission Gujarat plant by January 2017. So, given that happening, by when can we expect the full ramp up of Gujarat plant?

Ajay Seth: Normally when a plant starts commercial production, it takes at least six months for it to go full steam. So, you will see production slowly ramping up from start to about six months.

Jinesh Gandhi: Okay. And have we started planning for phase two at Gujarat? I understand it is too early, but considering the way we have been constrained for capacity, are we looking for second phase at Gujarat now?

Ajay Seth: So, we are now closely evaluating the capacity and the market requirement and then whatever call is to be taken, will be taken pretty soon.

Jinesh Gandhi: Okay. But, January 2017 we should be able to start Gujarat?

Ajay Seth: That is right, yeah.

Jinesh Gandhi: And from the current capacity also Chairman indicated that we are looking to further squeeze out more production. Any indication what we can produce from current capacity for FY17?

Nikhil Vyas: What Chairman mentioned is that, we have current capacity of around 1.4 million. And we reached 1.43 million in the last fiscal. And if we go for a double digit growth, that is around 10%, so around 1.57 mn units we need to produce in the FY17. So, whatever additional capacity is required; (around 1.5 lakhs or so) our engineers are working on to increase the same.

Jinesh Gandhi: Right. And couple of other questions, primarily book keeping questions. What would be the rural contribution in FY16, in the fourth quarter?

Nikhil Vyas: Overall for the year it was around 35%.

Jinesh Gandhi: Okay. And any sense on the fourth quarter?

Nikhil Vyas: It was 34%.

Jinesh Gandhi: Ok. And Mr. Seth, last questions on Indian Accounting Standard, what kind of impact do you foresee for Maruti both on P&L and balance sheet?

Ajay Seth: Not very significant and I think there will be some small impact. But, couple of items will get impacted. One of course is the income recognition on account of these mutual funds. So, we have accruing income from the next year. Second is that, we have been showing an extended warranty income, the extended warranty that we sell in one year. So, that is something that we are going to be deferring now based on the accounting standards. And then there will be few other adjustments on account of retirement benefits and things like that. Overall I think when you look at the net impact, there will be not too much.

Jinesh Gandhi: Okay sir. Thanks and all the best. All the best sir. I will come back in the queue.

Moderator: Thank you sir. The next question comes from Mr. Ambrish from JM Financial. Please go ahead sir.

Ambrish: Sir, congrats and thanks for the opportunity. Sir, just one question, we are looking for 10% growth in FY17. Sir, can you help us to understand how do you see the outlook for urban and rural growth in this perspective, when we talk of 10% growth?

R.S. Kalsi: The year gone by, we had 9% growth in the rural market and 9% growth in the urban market. However, if we talk about the year before that, rural growth was 23%. But, due to bad monsoon the rural economy is under pressure. Moving forward, we expect that with good monsoon forecast, rural economy should revive. But, that will happen only around October and onwards. We are focused at both the markets. We have introduced new models, which are becoming popular among the urban population. We are opening more outlets as well in the existing as well as NEXA channel, which would help us in enhancing our reach. So, our focus would be on both the markets, urban as well as rural. And moving forward we are quite confident that we should be able to do good on both the fronts.

Ambrish: Sir, if I understood correctly, for FY17 is it fair to understand that urban growth will be better than the rural growth for us?

R.S. Kalsi: Looks like. Because for the first six months, there will not be many signs of revival in the rural economy. But, our endeavor is to then reach more villages. For example, last year we added about 20,000 villages to our portfolio. This year again we would be reaching more villages. We closed at 144,200 villages. And, we will be reaching about 160,000 villages this year. So, till the time revival takes place, our intent would be to enhance the reach. And once the economic revival takes place then certainly penetration would also increase.

Ambrish: Okay. Sir, just one more question. Sir, can you share your thoughts on, if there are plans to get gasoline Brezza in the market, if there is any? Then what would be the timeline?

R.S. Kalsi: There are number of projects in the pipeline as far as the R&D activities are concerned. And they keep on prioritizing their activities depending on the market requirements. On this, we will let you know as and when we have plans in that direction.

Ambrish: Okay, thanks a lot sir and all the best.

Moderator: Thank you sir. We have the next question from Mr. Ameen Pirani from Deutsche Bank. Please go ahead sir.

Ameen Pirani: Hi sir. Thanks for the opportunity. Sir, my first question is on royalty. There have been talks for some time now that future models could have an element of royalty payable in rupees instead of the yen. And there have been some reports that Brezza is the first model in which such a thing has been done. Could you confirm and help us understand whether that is the case? And by when this policy could come into place in the future?

Ajay Seth: So, Brezza is of course the first model where royalty is being calculated in rupees on the Indian sales value. It is a model which has been jointly developed by Maruti and Suzuki. So, royalty rates are also lower, because the efforts put in by Maruti is factored in the royalty rates. So, it is lower than the normal rates. I think Chairman has mentioned in couple of discussions with investors as well as in the media that for the new license agreements that we will be executing, for that the discussion is on in terms of eliminating the exchange risks by converting them into rupee base royalty formula. So, that is what the current status is. Further discussions are on. As and when it gets finalized, we will come back and let you know.

Ameen Pirani: Okay. And sir, can you help us with the royalty number for the fourth quarter?

Ajay Seth: Royalty was at 6.3% as I mentioned, which includes the reinstatement impact of the third quarter as well. The number was at 944 crores.

Ameen Pirani: Okay. And sir, lastly on the market demand, I know you have been talking about the fact that you will try to get 10% growth over the last year despite the capacity constraints. But, in your view how is the market looking right now? Is the market looking at a better year compared to the last year or is the market environment still not improving significantly?

Ajay Seth: Traction in the market is still not visible clearly. The new models seem to be doing well. So, there is excitement when you have the new models being introduced. You have a pull for the new models. But, older models still are going slower and not going at a pace at which one wanted to see them at. Hopefully I think in the next second half of this year, we should see some bounce back in terms of market demand.

Ameen Pirani: Okay. Sir, that was very helpful. Thanks for the opportunity.

Moderator: Thank you sir. Sir, we have the next question from Ms. Rashi Talwar from Ashmore India. Please go ahead.

Rashi Talwar: Good afternoon sir.

Ajay Seth: Good afternoon.

Rashi Talwar: Sir, quick question. Since the market environment hasn't really improved substantially, the discounts have narrowed by quite a large amount, 4000 is reasonably large number. I am just trying to reconcile the two statements.

R.S. Kalsi: The issue is that we have introduced the new models which have seen astounding success in the market place, say, Baleno, Brezza and S-Cross. So, the discounts on these models are not there. Second thing, we are not doing well only on the strength of discounts. It is the strength of the models and the sustainability of those models. If I can give you an example, 23 models were launched in the year 2015-2016, out of that how many were successful, you can count on fingertips, right? Not every model. Some models were three months' hero, some models were six months' hero. But, if you see the sustainability and longevity of our models, we have crossed oDzire sales of 1 million, we have crossed Swift 1.5 million. And these models are doing pretty well. So, our products are playing a big role and then expansion of our network. So, we not only added our network by 200 numbers on the existing channel, but also we launched a new channel NEXA, where we brought in 127 new showrooms. And as I earlier mentioned that, anticipating that rural economy would be bad, we reached out to 20,000 more villages in the year. So, it is a combination of all these efforts which is fetching us good results.

Rashi Talwar: And sir, is there a divergence in the discounts, between the petrol and the diesel vehicles currently?

R.S. Kalsi: Little bit of tweaking is required to be done depending on the market sentiments. Sometimes it is a little high on diesel and sometimes it is little high on petrol. So, more than strategy, I think this is a tactical call that our field people have to take and we support them on that.

Rashi Talwar: No, I am just wondering that post the diesel ban in NCR, whether that has affected the quantum of discounts on each vehicle?

R.S. Kalsi: No, our models have not been affected because of the diesel ban in NCR. It is only 2 liter plus capacity. Particularly, let me add one more point that two of our models, Ertiga and Ciaz, are available in the hybrid version as well. So, introduction of hybrid on these models have led to increase in their demand.

Rashi Talwar: Fair enough sir. Thank you.

Moderator: Thank you. Sir, we have the next question from Mr. Kaushal Maroo from Emkay Global. Please go ahead.

Kaushal Maroo: Thanks sir. In the entry level category we have seen products like the Kwid and the Tiago. Are you comfortable with your existing product lines? Do you think there is a need for a major upgrade, revamp or addition of products there? And similarly between the Celerio and the Swift, the Ritz has not been doing well. Is there a need of a revamp for the Ritz or a new product in that category?

R.S. Kalsi: Responding to your first question, we work on the strength of our network as well as our service. So, as I mentioned, new models come and new models go. Some of these are for a period of six months and others are there for a year or two. Now, look at the service network that Maruti Suzuki has, we have more than 3150 workshops across the country. This difference is seen by the buyer, only after he has used the vehicle for about say, five-six months and then he is on the lookout for workshops, parts, servicing facilities. So, that is where we are having a big competitive edge over others. That is one thing. Second thing is, you talked about the gap, I think Celerio is doing very well. And in fact we have clocked a growth of almost 28% on Celerio this year. This is available in AMT version and CNG version and diesel version. So, from that point of view, I don't think so there would be any void felt on account of Ritz.

Kaushal Maroo: And sir, could you comment on the LCV launch and what could we expect from that category and when can we expect that to come in?

R.S. Kalsi: So, we are working on this. And it is a matter of prioritization, our teams were busy on Brezza. We will introduce it soon.

Kaushal Maroo: Okay. And sir, lastly on the decision of which model would be launched on the NEXA platform and which one on the existing platform, there is still at least for me a little bit of no clarity there, because Ignis we hear is going to be launched on the NEXA platform while Swift, Ciaz and the Brezza are on the existing platform. Could you just share your thoughts on that please?

R.S. Kalsi: When we talked about NEXA, right from the beginning we have been talking about four pillars of NEXA. One is, about giving an experience to our customers, an experience in terms of the hospitality, in terms of the digital showrooms, in terms of the overall ambience, in terms of the relationship managers. So, it is about the premium experience and not just the premium products. Now, why this confusion is coming is that or the doubts are coming in the minds of people is that, most of the time they link premiumness with the price alone. But, I would like to say that the premiumness is also associated with the product styling, product design and the product features. So, on an ongoing basis, we keep on doing customer clinics and then the styling features and the overall performance of the vehicle, everything is matched with the target groups. So, now if we talk about NEXA, it is a different target group of customers who would love premiumness, who would love pampering, who like to deal with relationship managers. So, that is one category of customers. There is other category of customers, who are both youthful and traditional. So, our existing channel products are matched again through these customer clinics to these profiles. And we will be giving new products to both the channels.

Kaushal Maroo: Okay, thank you sir and all the best.

R.S. Kalsi: Thank you.

Moderator: Thank you sir. Sir, we have the next question from Mr. Pramod Amte from CIMB. Please go ahead sir.

Pramod Amte: Just couple of questions. One, your ASP discounts seems to have come down also with regard to your new product introduction. If you have to look at it on a like to like basis, on a model basis, are they still down on QoQ and how is it post the infrastructure cess introduction into the market?

Ajay Seth: Discounts come down based on the combination of factors as we just said, new models not carrying discounts, also the efforts that we have put in, in terms of new reach in the market place. So, these are some of the factors, because of which the discounts have come down. Now, model to model the discounts will keep varying on a monthly basis, because it will depend on what is the trigger and what is required to be given as discount or a sales promotion activity to stimulate more demand in that particular product.

Pramod Amte: Ok, Sir. Second is, looking at the infra cess panning out in the month of March, how are the discounts behaving from April onwards, one? And second, considering that you have a capacity constraint now, would you be more favorable for profitability instead of ASP discounts and market share this year?

Ajay Seth: I think Chairman mentioned in the TV when this question was asked that, we will definitely like to produce more cars which are in waiting and are in more demand. So, we will try and work that out as soon as we can. So, our intention would be to look at how we speed up production of Baleno and Vitara Brezza, the models that are in large demand and are in waiting. That will be our first big effort.

Pramod Amte: Okay. And the next question is with regard to S-Cross. You did a unique activity of reducing the price and compensating the earlier customers. What was the cost involved of the same? And what are you trying to send a signal to the market and to the competition?

Ajay Seth: The compensation that we paid to customers who had purchased this prior to the price reduction was about Rs.80 million. And we thought that it is very important. So, the existing customer not feel that they have got a bad deal compared to the customers who have bought it later.

Pramod Amte: And is it a big thumbs up by the customers? Are they happy? Any surveys post that, so that they remain in the Maruti's brand for a long time to come?

Ajay Seth: I think it is evident from the sale of S-Cross, we are doing about 2500 units a month and that has been pretty stable now. So, we don't see that there is any pull back from the customers in terms of not coming and buying these customer cars.

Pramod Amte: Sure, thanks a lot sir.

Moderator: Thank you sir. Now, I hand over the floor to Mr. Sonal Gupta for closing comments. Please go ahead sir.

Sonal Gupta: Hi. Good evening sir. Sir, just a couple of questions from my side as well. Just again coming back to, as of end of FY16, could you tell us what is your now direct plus indirect imports as a percentage of sales? Where do you stand?

Ajay Seth: So, we will be about, our direct and indirect imports put together will be about 17% of our sales.

Sonal Gupta: Right sir. And just the other thing was on, like I think somebody had initially also asked that, we have seen a very high marketing spend in FY16 because of I guess, also because of the new launches that you have done. And I believe there were some flash news in CNBC that, where I think the Chairman said that they are expecting some moderation in marketing cost. So, is there something on that front, we should see marketing cost growth in FY17?

Ajay Seth: I think what Chairman mentioned was the marketing spend will remain at the same level as this year. It is not going to go up, but it is also not going to come down. Because, we always have said that we would like to invest in something which gives us long term impact. I think it is very evident that the kind of efforts in marketing that we have made is also showing results in terms of increased footfalls and the number of sales etc. So, this is an investment that we are making consciously over a longer period of time. But, to answer your question, the marketing spend this year should be similar to what it was last year.

Sonal Gupta: Okay sir. And sir, just last question. Again, on these raw material cost to sales have come down very sharply this quarter. So, is there any one off effect in terms of some of your finalization of prices on import prices etc. which have helped this quarters margin and raw material cost down or do you think this is a normalized level of raw material cost and any cost inflation should be looked at from this level?

Ajay Seth: So, there is no one off in this for sure. In fact that we had mentioned last time that there is this fixed cost incidence that in the third quarter had created this sudden decline, which normal inventory gets adjusted. So, now we are at a normal pre-stock level. So, that was one bit. The second is that, we have seen the best of everything in this quarter or this year in terms of commodity prices, in terms of foreign exchange rate, barring the fourth quarter of course, where the foreign exchange rates were a little weaker. But, in terms of the cost reduction efforts, the supply chain took up. So, all these factors were favorable. Next year, now we will have to closely watch the two factors, which is the foreign exchange impact and the commodity impact. Because, commodity has started looking up a little bit. We don't see that to be a steep increase. But, there will be some increase and we will have to see how much. And of course forex is one big factor, because large portion of our exposure on account of imports is on the vendor side.

Sonal Gupta: Right sir. Great sir. Thank you so much for answering my questions. And on behalf of UBS, I would just like to thank you and the senior management team from Maruti for taking out this time to discuss all these questions. Thank you sir.

Ajay Seth: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's

conference call service. You may disconnect your lines now. Thank you and have a good evening everyone.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.