Transcript

Conference Call of Maruti Suzuki India Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Jitin, moderator for the conference call. Welcome to Maruti Suzuki's Q4FY17 and FY17 annual results conference call. At this moment all participants are in 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, this conference is recorded. Now I would like to hand over the floor to Mr. Sonal Gupta from UBS Securities. Over to you sir.

Sonal Gupta: Hi, good afternoon everyone. On behalf of UBS Securities, I welcome you all to the Q4FY17 and FY17 annual results conference call for Maruti Suzuki India Limited. We are delighted to have today with us the senior management team from Maruti Suzuki, headed by Mr. Ajay Seth, the Chief Financial Officer. I will now like to transfer the floor to Mr. Nikhil Vyas to take the proceedings forward. Over to you Nikhil.

Nikhil Vyas: Thank you Sonal. A very good afternoon to all of the participants. May I introduce you to the management team from Maruti Suzuki. Today we have with us our CFO Mr. Ajay Seth, Vice President Finance, Mr. Pradeep Garg and Sanjay Mathur, and other team members from finance. From corporate, we have Vice President Corporate and Government Affairs, Mr. Rahul Bharti. The con call will begin with a 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 that have to be understood in conjunction with the uncertainty and the risks that the company faces. And I would 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 our annual financial results. India's passenger vehicle market grew at 9.2% in 2016-17, compared to 7.2% in 2015-16. Growth was broad-based, with almost half of the manufacturers showing improved sales over the previous year. New models were the primary growth drivers during the year.

The reduction in lending rates, coupled with banks' renewed focus on retail loans, also supported growth. Implementation of the 7th Pay Commission recommendations and revival of non-urban demand in the latter half of the year along with sales promotion aided the growth of the passenger vehicle market in 2016-17.

The challenges faced by the industry included subdued demand in small towns and rural areas in the first quarter, owing to successive monsoon failures in previous years. There was a temporary ban on the sale of diesel vehicles of engine size over 2000 cc in National Capital Region. Prices of commodities, notably steel, firmed up.

As the price gap between diesel and petrol narrowed, the shift towards petrol models accelerated during the year. While the share of diesel vehicles in total industry sales in 2016-17 declined to 40.5% from 44.1% last year, the Company, was able to register a growth of 13.6% owing to strong performance of our enhanced diesel portfolio.

The Company's recently launched products, Baleno and Vitara Brezza, continued to receive an unprecedented market response. Vitara Brezza won over 25 prominent awards from automobile writers and experts, including ICOTY (Indian Car of the Year).

With three new models – Ignis, Baleno RS and Super Carry - launched in the year, the Company further strengthened its product portfolio and entered new segments.

The Company's market share for the year stood at 47.4%.

Now, with the movement of Ciaz in NEXA and the upcoming launch of all new Dzire in May '17, we are confident that the product lineup would continue to enthuse customers in future as well.

The Company worked extensively on network expansion, both in the existing channel as well as NEXA. The Company also introduced a new channel for light commercial vehicles taking the total network strength to 2,312 outlets.

Export markets in Latin America and Africa were impacted by political and economic instability. The drop in these markets was compensated by growth in European markets, supported by new and exciting models.

The agility of the Company of this size, to re-align itself post the supply side disruptions due to unfortunate fire incidents at 2 of our suppliers, demand side disruption due to re-monetization of currency, do speak a lot about the strong foundation, processes and the motivated workforce but present us with the challenges for greater work in the future.

With Suzuki taking care of the incremental capacity expansion in Gujarat, the Company is on track to further enhance its focus on strategic areas like new product development, further strengthening of marketing infrastructure and Research and Development capability at Rohtak. The planned incremental investments in Rohtak centre would help to a greater extent in meeting the stringent regulations prescribed by the Government ahead of the timelines for meeting emissions and safety norms. Six of our models have now been certified for advanced safety, ahead of regulations. The Company's effort to expand network faces a risk from higher land prices and increasing rentals in the future, including in locations where the network is already present. To de-risk its future network expansion, the Company has been identifying land in prominent as well as upcoming locations for expansion of sales and service outlets. A separate function has been setup for buying strategic land parcels across the country. During the year, 77 land projects were identified and these are currently under various stages of the commercial and regulatory approval process.

While the Company's unit sales grew by 9.8%, the net sales increased by 18.5%. This reflected the increase in share of higher segment models in the Company's total sales. Along with it, higher non-operating income and material cost reduction initiatives contributed to the highest ever profit recorded by the Company at Rs 73,377 million, up by 36.8%. This was partially offset by adverse foreign exchange movement and an increase in commodity prices.

I am happy to share with you that the Company has increased the dividend to Rs 75 per share from Rs 35 per share last year to enhance the return to shareholders in addition to the consistent value creation reflected in the share price.

Going forward, with increased political stability, the government's focus on manufacturing and infrastructure development, lower interest rates, lower fuel prices, increasing consumption and reforms like GST, there is optimism with regard to economic growth. Although there are mixed view on monsoon and risk of rise in inflation, it is widely expected that the economy will support growth of the automobile industry. The Company will make efforts to achieve double-digit growth in 2017-18 as well, on the back of a strong product portfolio, enhanced brand image, increased capacity with the start of SMG operations in Gujarat and further strengthening of the network. The Company is on course to achieve its goal of 2 million vehicle sales in the year 2020.

We can now take your questions, feedback and any observations that you may have.

Question and Answer Session

Moderator: 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.

First question comes from Mr. Basudeb Banerjee from Antique Finance. You can proceed sir.

Basudeb Banerjee: Thanks sir for taking my question. Like every quarter, request you to please sharethe blended discount, export value and the royalty in rupees.

Ajay Seth: The discounts in quarter 4 were at Rs. 15,194 per vehicle and for the full year discounts were at Rs. 16,748. So they were a shade lower than what they were in the corresponding period last year.

Basudeb Banerjee: Yeah. And exports and royalty absolute sir, this quarter?

Ajay Seth: So, royalty for the quarter was at Rs.948.8 crores and it was at Rs.3848 crores for the full year. And export sales were around Rs.1500 crores for the quarter and they were around Rs.6000 for the full year.

Basudeb Banerjee: Sir, next question sir, like almost 20% of your PBT comes from other income and with FMPs drying out and yield on investments trending to come down, so how should one look at pure yields on your investments for coming fiscal?

Ajay Seth: So, I think the non-operating income is largely dependent on where the interest rates move and if interest rates are lower then obviously the non-operating income would tend to fall to the extent of the drop in interest rates, but to some extent it will also get compensated because there will be some additional cash that will be generated during the period. So if you are looking at average of '16-'17, the closing cash will be higher than the average cash for the year and similarly some additional cash would also get generated. So, therefore, I think, it has to be looked at in totality with respect to interest rates and the average cash that is there in the books in that period. So, we are also expecting lower interest rate in the next year.

Basudeb Banerjee: Any indicative yields that one should look at, at status quo present levels….?

Ajay Seth: I think a more realistic yield would be at about 7%.

Basudeb Banerjee: And sir last couple of questions …with Ignis being launched few months back, how do you see the reaction of the market and what is your perception on the product till date. It is below or above your expectation how the market has received it?

Nikhil Vyas: It is as per our expectations. The product is received well in the market. We have a waiting list of around 4 to 8 weeks on the product and it is in line with our expectation.

Basudeb Banerjee: Sure. And last question sir, in recent media there is article that Suzuki at a global level is typing up for the production of lithium ion battery, so anything to highlight on that with regards to Indian operations?

Rahul Bharti: Suzuki, in a joint venture with Toshiba and Denso is planning to set up a lithium ion battery project in India, which will help us develop some mild hybrid and hybrid models in the future.

Basudeb Banerjee: So, any timeline for that?

Rahul Bharti: The company will be established within 2017 and it will try to set up the plant soon after. So, let us see.

Basudeb Banerjee: Sure, thanks. That's all.

Moderator: The next question comes from Mr. Amyn Pirani from Deutsche Bank. Please proceed sir.

Amyn Pirani: Good afternoon sir. Thank you for the opportunity. Sir, my first question is what is the overall CAPEX done in FY17 and the guidance for FY18, and within that if you could just give a broad indication of how much have you already spent on the marketing distribution, land acquisition, and what is the plan for next year?

Ajay Seth: The CAPEX forFY'17 is 3200 crores that is what we have incurred this year. And the next year projection is close to Rs.4500 crores. As we just mentioned, I had mentioned in the opening remarks also that there are about 77 projects that we have identified. So, we are still working on finalizing these projects. And there is a significant budget that we will be spending on these over a period of time. So closing of these properties takes time. So we are at the moment working very hard in terms of closing these 77 properties, and have a very large appetite this year for buying many more parcels of land during the year.

Amyn Pirani: Okay. So would it be fair to say that going forward major increase in distribution will happen through this route only or are you expecting a significant increase in distribution through your legacy methodology as well.

Ajay Seth: Significant increase is going to happen through acquiring land and dealers building the facility on that land.

Amyn Pirani: Okay. And sir, just on your capacity, if I am not wrong, I think this year you have mentioned that you should be able to achieve 250,000 in Gujarat by the end of the year, which means approximately 125,000 effective capacity for this year. So, as we go into next year, what is the, I mean, kind of capacity growth that we can see, because if it is 125,000 this year and another 125,000 next year, then your ability to grow in double digit would be a bit constrained beyond FY18. So how should we look at that?

Ajay Seth: I think we will be able to take a growth of 10% for sure for the two years, because we will be at 1.6 million between Manesar and Gurgaon, and about 2.5 lakhs at full capacity in '18-'19. This year, of course, they will do about 1.5 lakhs and not the full 2.5 lakhs so next year I think we will be at 2.5 lakhs. So with that, I think, we will be able to make alignment for a 10% growth. But yes, if growth is beyond 10%, then there is a bit of a concern.

Amyn Pirani: Okay, and sir just lastly, I mean, would you want to highlight any number of what could have been the impact in this quarter because of Gujarat ramp up or is anything expected in the next one or two quarters?

Ajay Seth: So it is like any other expansion that you do, so this is like a new project, which has come up, and therefore the fixed cost. At the moment, the results will not show much, because the volumes are very small, we have just got 10000 units from them. It will only get reflected next year. But initial depreciation till it goes into full capacity, the fixed cost will tend to be high. We have also mentioned that in Gujarat vendors will move gradually over a period, so there will also be some element of logistics that you will be incurring over a period. And, I think, progressively when you move to next year you will see that. But it is like any other expansion that you do where you start with a higher fixed cost and then eventually you are equal to what you are incurring in your normal plant. So, it takes one to two years before you normalize. I think, same thing is likely to happen in Gujarat also.

Amyn Pirani: Okay, fair enough sir. That was helpful. Thanks for the opportunity.

Moderator: Thank you sir. Sir, the next question comes from Mr. Chirag Shah from Edelweiss. Please proceed sir.

Chirag Shah: Thank you for the opportunity and congrats for good set of numbers sir. Sir, on the Gujarat plant first, so can you indicate what is the kind of charge that we would have in our P&L because Gujarat would be operating on no profit no loss basis. Because of production of only 10000 odd units, the two month operating expenses would all be loaded in our P&L. What that amount approximately would be, can you just indicate that?

Ajay Seth: Chirag, the way it works is that there will be different heads which gets consolidated into the material cost. And I think the amounts are very small at this point in time to give you any meaningful number. As I mentioned to you, next year when we move full blast and you will see that sizeable amount and then you will get to see what numbers move in from overheads or depreciation to material cost.

Chirag Shah: Okay. What we are trying to understand what is that abnormal hit in the quarter we have seen if volumes were not being produced in Gujarat and the cost would have come in, because that would normalize going ahead. Is it 50 bps impact on RM or 30 bps, is it the right kind of number to look at for the quarter?

Ajay Seth: For 10000 units what impact would you have on your P&L?.. Hardly anything. I think the only…

Chirag Shah: But your cost would have been higher, right, for two months you would have hired people, you would have the plant running, you would have various other costs, etc.

Ajay Seth: If you allow me, I will answer that. See, the actual post manufacturing cost is only for two months. However, there is a preoperative expense which is a one-time charge that we have taken because in this plant the construction was on for three years till 1st February. So, all the preoperative expenses, which are non-capitalizable, has come into our P&L, which is a one-time cost of about 118 crores. So that is a one-time cost that you see built in our material cost. That is the only exceptional piece that you see. Otherwise the impact on account of these 10000 units is negligible.

Chirag Shah: Okay sir, this was helpful. Sir, second question is on selling or other expenses, which has seen a reasonable jump. Is it largely attributable to the demon impact and the support activities that you were doing?

Ajay Seth: See, we had always mentioned that we are scaling up our efforts on marketing and advertising activities and that we have been saying quarter after quarter. There were a series of launches also that happened, Ignis, Baleno RS, Ciaz, which is now moving to Nexa channel, plus we also stepped up our activities post the demonetization. So below the line activities also were stepped up. So, it is a combination of all that. And we have always said that this is an investment for future and we think it is giving us very good results and we will continue to focus on this.

Chirag Shah: Fair point sir. This was helpful. So on the raw material side, all the impact is there in our P&L right?.. or something is left?

Ajay Seth: Absolutely. I mean, you cannot make an audited account unless you have made provisions for all these things.

Chirag Shah: No, what I said, the pass through for the full quarter may not have happened in the price hike which we took near the end of January. The cost pressure would have been there for the full quarter, so the full recovery may not have happened. Is it the right assessment?

Ajay Seth: No, I think, see, these two things are independent. Price hike may not fully absorb all the cost increases many times. Price hikes are taken for certain models, which you introduce and then you say that you need to correct prices. Even this time around you would have seen that the price that we increased on most of our models are very, very small. It is only on the introductory models, that were launched one year ago that we corrected prices by a bigger margin.

Chirag Shah: Fair point sir. Thank you and all the best for future.

Moderator: Thank you sir. Sir, the next question comes from Mr. Pramod Kumar from Goldman Sachs. Please proceed sir.

Parmod Kumar: Thanks a lot for the opportunity. My first question pertains to the land parcel what you referred to just now. You mentioned that there is some 77 land parcels which are in various stages of closing. So if you can just help us understand how long or rather what period of time have you managed to come up with this particular number? Is it all activity based on whole of FY17 or is it more led by the activity started in the 4Q? Related to that I just want to understand, are these largely new locations or does it also include takeover of existing locations of dealers in key cities.

Ajay Seth: This vertical was set up not long time ago and it has actually come into action about six months ago. A lot of activity is going on now in terms of consolidating it and getting to the ground level to get this expedited. So land parcels will be all new land parcels that we are examining. We are not looking at any take-over of dealerships at this point in time.

Parmod Kumar: So in a way effectively if you open up a new request for quotation from end of dealer for new location, you are kind of putting an agreement or clause saying that the land will be owned by Maruti and leased back to the entrepreneur. Is my understanding right?

Ajay Seth: Yes that is the understanding that first we will identify where all we need to be located both for sales and service and then we will get the dealer go to that land to construct.

Parmod Kumar: So but taking over of existing dealerships in large cities where probably the location becomes extremely crucial and the cost far more higher because the land/real estate prices being much more higher, is there an option which is open or which you would like to take but the dealers may not agree? How should one look at that?

Ajay Seth: So we are really comfortable because most of the locations, the dealer would own these dealerships so they are on their own land. Wherever there is a problem with respect to lease land and we think over a period this can become a problematic dealership because of the land owner trying to convert it into something else, then we will take a view on that.

Parmod Kumar: So in a way it will be largely new locations and new smaller cities and new tier 2 towns where you will probably see a gap in your sales network and you will buy a land there, so it shouldn't be exactly a very expensive proposition right?

Rahul Bharti: Not really. As we had mentioned, these are in all locations both upcoming and existing own areas.

Parmod Kumar: Okay so select cities also may see more dealerships coming up? But is it like if an existing dealer shows interest in new location even then you would have this condition right? Any new location will exactly will have to come on Maruti land?

Rahul Bharti: Right. It is not will have to come up, it is as far as possible we are looking at opportunities where Maruti itself have a location in its own name.

Parmod Kumar: Okay sounds great. The other related question is that your CAPEX number is stepping up materially from FY'17-FY'18 if you can just quantify how much roughly you will be looking at allocations towards this because one has model depreciation expense as well because when you buy a land there will not be any expenses related to depreciation, so if you can just help us understand broadly how should one analyst look at in terms of modeling, that would be really helpful.

Ajay Seth: See broadly it is categorized, I don't have a breakup at this point in time, under four heads. One is on the new model development, the amount that you incur on jigs and fixtures and dies. Second is on the marketing expansion plan which we just talked about – land parcel that we intend to buy. Also the stockyard and things like that, that's the second piece. The third piece is on R&D and the fourth would be if there is any normal requirement of the annual capital budget, for the plants in Manesar and the Gurgaon plant which have now become aged. They are pretty old. So the requirement with the annual capital budget has also been going up because we have to do a lot of replacements of some of the existing assets in these three plants. So these are four categories in which we will be spending money. We don't have at this point of time a clear breakup to give you, maybe we can get into those details at a later point of time.

Parmod Kumar: Sounds good sir, thanks a lot for that and my second question pertains to the premiumization and what we are seeing in India in a big way across categories, across segments, so we have done like average ASP growth of somewhere around 7.7% led by the mix improvement this year on the back of a very strong FY'16. So how should one look at when you look at the next three FYs, do you expect the trend of premiumization where the customer wants to buy more aspirational brands and higher in variance. Should that continue? Are we having reached a stage where it will start moderating from now on or you still see some bit of steam left in terms of the premiumization story of cars in India?

Nikhil Vyas: Pramod I think Indian customers are very judgmental and they carefully evaluate the value price equation while buying a car. So if they are getting more value in the same price, they go for a higher variant, that's what we have seen now with the share of higher variant increasing, if the customer continues to find value in the product, then the top variant continues to be in demand.

Parmod Kumar: So you as a company are in anyway not looking at disturbing that equation what is already playing out, so we shouldn't expect any distraction in the premiumization of the mix in a hurry, is my understanding right?

Nikhil Vyas: We try to align ourselves with the customer requirement.

Parmod Kumar: Sounds great. Thanks a lot and best of luck, thank you.

Moderator: Thank you sir. Sir, the next question comes from Mr. Sonal Gupta from UBS Securities. Please proceed sir.

Sonal Gupta: Good afternoon sir. Just to start with can you tell us what is the depreciation for SMG for this quarter because I think that will be the other major item which will really go into your raw material cost?

Ajay Seth: We would not at this point in time have these breakups of various heads of depreciation etc. because we are buying the entire project as a full car and therefore we will not be able to give you split between overheads, depreciation, things like that. So what we are buying from them is full cars, at the end price which has been agreed on principles of no profit, no loss but their depreciation charge will be exactly in line with what we would have done if it was our own plant and we would have incurred that CAPEX. So it is not different. Same 8 years for depreciation of plant and machinery, five years for dies, jigs and fixtures, so no change. So you assume that if we are producing it and we are buying it, it is a similar thing. The numbers are so small, 10,000 units, I don't think the number would be meaningful number anyways.

Sonal Gupta: No sir because the depreciation will be full right? The straight line depreciation in my estimate is like you would have like 130 crores depreciation…?

Ajay Seth: No, no it is only for two months. Depreciation in books is provided for only the period for which you are actually running the plant. So if it started on the 1st of February, it will only be for two months.

Sonal Gupta: Okay, so it is not a very large number.

Ajay Seth: Yeah, it is a very small number.

Sonal Gupta: Sir in terms of GST do we have any clarity? Do we see any de-stocking as GST comes in from 1st of July from dealers? I know you are already running pretty low on inventory with dealers so just wanted to get a sense, do we see any impact from that?

Ajay Seth: I don't think so. First of all we need to get to know the classification of goods which happens I think in the month of May when they meet, they will then be able to classify goods. Our feeling is that the rates of taxes would more or less remain same as they are today. So there will not be much difference. Any stock that you hold, any excise duty already paid on those stocks if they are sold post GST you will be able to take a set of credit for those stocks. So it is the way they have structured it, it is pretty seamless and any disruption either on account of stocking or de-stocking at this point in time does not look like happening. But we will get more clarity when these classification rates are announced.

Sonal Gupta: Right and sir on Pay Commission, what would be the share of government employees now for the full year for you?

Nikhil Vyas: Share of government employees is around 20% now.

Sonal Gupta: So that was the same as for the 9 months period right?

Nikhil Vyas: Yes, more or less.

Sonal Gupta: Lastly could you give the diesel volumes for the quarter?

Nikhil Vyas: It is 115941.

Sonal Gupta: That is extremely helpful.

Moderator: Thank you sir. Sir, the next question comes from Mr. Raghu Nandan from Quant Capital. Please proceed sir.

Raghu Nandan: Thanks sir for the opportunity. For FY17 can you share the mix and growth for rural-urban segments, private and commercial segments and first time replacement and additional buyer segments?

Nikhil Vyas: Raghu, I think last time also we had mentioned that the markets are becoming more homogenous now and we are not particularly tracking the rural and urban separately, but just to give you a sense that if we look at the growth of tier 1, tier 2, tier 3 cities like that, the growth seems to be broad-based. The next question you asked is about first time buyers? First time buyers is around 44%.

Raghu Nandan: So in the remaining 56% how would be the mix between replacement and additional vehicle buyers?

Nikhil Vyas: More or less 50:50 you can say.

Raghu Nandan: And how would it be for private and commercial buyers? Would you have the tracking?

Nikhil Vyas: No, that number is not available at the moment.

Raghu Nandan: And because of shared probability, this additional vehicle buyers over the last one or two years, have you seen any change in the share happening or tier additional vehicle purchases has it been impacted?

Nikhil Vyas: Raghu, this is a very recent phenomenon and still this fleet segment is just about 6% of our overall sales. So before any significant change is reflected in our sales, it takes some time, so it is too early to say anything about it.

Raghu Nandan: Is the news about the new DZire being manufactured at the Gujarat plant correct, given that they are on the same platform and what are the other models likely to be manufactured there?

Ajay Seth: See, any model can be manufactured at any of the plants. This is our philosophy that we should be flexible enough to decide where the capacities are, where the model needs to be produced. At this point in time we have visibility on Baleno which is being made in Gujarat and we are in the process of now deciding which models have to go to which plants between Manesar, Gurgaon and Gujarat. At this time we don't have visibility beyond Baleno which are the other models that are likely to come out.

Raghu Nandan: I understand. Thank you sir.

Moderator: Thank you sir. Sir, the next question comes from Mr. Ashish Nigam from Axis Capital, please proceed sir.

Ashish Nigam: Thank you. Hi team what is the outlook on product mix going ahead, given that we might have capacity constraints even in FY18 does it mean that we'll divert our production more towards profitable models where the discounts are lower?

Ajay Seth: Philosophy has always been to give to the market what it needs and it is not a question of high profit or less profit. I think that is secondary. But we will like to cater to the market in terms of where the demand is and so we will go by that logic. We are hopeful that we will be able to meet the entire demand for the next year, unless there is something excessive that happens. As you said we can manage between 10% to 12% growth and if there is a need to stretch, we will do that stretch to ensure that whatever is required to be done is being done. But yes, if there is an exceptional circumstance that market grows beyond our expectation then we will obviously do the sequencing based on what is required for the customer and what is important from the customer point of view and not from the profit point of view.

Ashish Nigam: Okay but we can still stretch beyond 10%-12% of growth, it may be a good problem to have but it is something that we can do.

Ajay Seth: We can stretch but we never give up as a company; we always continue to squeeze. As you know the cost reduction that we do, everyone asks us this question every year. How do you manage cost reduction? Similarly, we will continue to squeeze as much production as we can.

Ashish Nigam: Okay and secondly on exports, it has been almost flattish for two years now. So what has been the reason why it has been subdued and what's the outlook for the next year and two years?

Ajay Seth: Ashish we mentioned that certain markets have been going down, especially the African market have been very badly affected. Sri Lanka where we were doing large exports, the duties have gone up there. So these markets have got affected, which have been offset with the new sales that we are making in Europe. So to a large extent they are compensated. As and when we find revival of these markets we will see these numbers coming up.

Ashish Nigam: We planned to export Baleno to Japan etc….has that begun or…?

Ajay Seth: Yes, yes long time back. It started….it's been more than one year that we have been exporting Balenos to Japan and Europe.

Ashish Nigam: Okay so how are we expecting next year to be for exports? Are we expecting some growth or expected to be flat from here also?

Ajay Seth: No, because of the reason that I just mentioned about these markets, we still think it will be subdued, we will be about flattish.

Ashish Nigam: Okay, that's it from my side, thanks a lot.

Moderator: Thank you sir. Sir, the next question comes from Mr. Sahil from Merrill Lynch. Please proceed sir.

Sahil Kedia: Thank you for the opportunity. I have two questions, one on the royalty; we have seen that at 900 crores, this is probably at about 4.9% of sales which is one of the lowest we have seen in recent quarters. Is this largely because of the weakness in the rupee dollar that we are seeing? That's number one, number two, there was some comments I think in the media briefing about royalty being in the rupee terms in the future, can you just elaborate on that?

Ajay Seth: Well, there are two things. Whenever you look at royalty, don't look at the quarter's royalty, look at the full year's royalty. So we are about the same as last year. What happened in this quarter four was that you re-instate royalty at the end of the quarter's exchange rates which is as of 31st March. Now, the 31st March royalty also has the third quarter royalty incorporated in it. We got some benefits because third quarter's royalty was at a much higher rate in the books but when it got reinstated at lower rate. So there was a carry forward impact of the third quarter royalty and the fourth quarter royalty was also at a rate which was much lower than the rate prevailing last year third quarter. So the combined effect of that was the royalty rate came down to 5.3%. So therefore I am saying that if you look at royalty, please look at it for the full year and full year royalty is about the same as last years'.

Sahil Kedia: And sir there was some comment made by the Chairman that royalty will be paid in rupees in the future. What is that? Can you just clarify that?

Ajay Seth: The comment made by the chairman in the press conference was that moving forward all our license agreements that we will do the new license agreements, there the royalty would be on rupee basis and not on CKD price basis.

Sahil Kedia: But that is already well disclosed, it is not a new development right? I just wanted to clarify that.

Ajay Seth: Yeah and it was the same thing he repeated at the press conference also.

Sahil Kedia: Okay understood. Okay one more follow up question, since you mentioned earlier that there is going to be enhancements in both Gurgaon and Manesar because the plants have become old and at the same time you are launching new products like the DZire. Are you also looking to de-bottleneck that capacity and probably increase it from 1.6 million number? Just want to get your thoughts on that.

Ajay Seth: I don't think there is any intention now to increase any capacity in Haryana. We are very clear that we would now live with this capacity. Whatever little we can do, we will continue to do to ensure that short-term market fluctuations are captured but we don't have any intention of now doing any de-bottlenecking or making fresh capital investment or any increase of capacity in these plants. All new capacities will now come in Gujarat.

Sahil Kedia: Alright sir, this is very useful, thank you so much.

Moderator: Thank you sir. Sir, the next question comes from Mr. Yogesh Agarwal from HSBC. Please proceed sir.

Yogesh Agarwal: Hi sir, just a couple of questions. Firstly, I think you mentioned most of the commodity hit is done. Just to clarify the Yen benefit should still be pending of around 5% which has happened in the last three months.

Ajay Seth: See Yen benefit is largely captured in royalty because royalty is already reinstated at the rate on 31st March. So that's already captured. So it is only on the balance, if you were to see, there could possibly be some benefit that may accrue compared to the average of this year. But bulk of the benefit which is royalty which is more than half of the exposure that we have on direct is already captured.

Yogesh Agarwal: Okay. There may be one off as you said because you restated the 3Q so actually royalty may go up next quarter, so that will offset the effect.

Ajay Seth: That's correct. Absolutely and the reinstatement of the 3Q that is almost 60 crores.

Yogesh Agarwal: Okay and sir secondly on pricing, how do you see pricing over the next three to six months because it seems the pricing environment has deteriorated since March….in April particularly so, any comments around that? In terms of discounts….anything…?

Ajay Seth: Discounts have actually come off a little bit in this quarter as well as for the year as I mentioned that discounts in quarter 4 were at 15,194 compared to 17,600 last year. For the full year discounts were at Rs.16,748 compared to Rs.18,869.So discounts have improved compared to last year.

Yogesh Agarwal: And you think the trend should continue?

Ajay Seth: It is all driven by market conditions. It is all difficult to predict on discounts. It is largely driven by market conditions and also if we are bringing new models, they tend to have no discounts when we started a new model.

Yogesh Agarwal: Right. Got it. Thank you sir.

Moderator: Thank you so much sir. Dear participants that was the last question for the day. Now I would like to hand over the floor to Mr. Sonal Gupta. Over to you sir.

Sonal Gupta: Thank you everyone. On behalf of UBS Securities I would like to thank the senior management team from Maruti Suzuki for taking the time out to discuss the quarter and the annual results. Thank you sir and thank you so much for joining.

Ajay Seth: Thank you Sonal, thank you so much.

Note: 1.This document has been edited to improve readability.