



“Maruti Suzuki Q2 FY11 Result Conference Call”

October 30, 2010



MODERATORS

- MR. SHINZO NAKANISHI - MD AND CEO**
- MR. MAYANK PAREEK - MANAGING EXECUTIVE OFFICER,
MARKETING & SALES**
- MR. DEEPAK SETHI – CGM, SUPPLY CHAIN**
- MR. AJAY SETH – CFO**
- MR. H. SAKAMOTO – EXECUTIVE OFFICER, FINANCE**
- MR. PRADEEP GARG – CGM, FINANCE**
- MR. K. D. SINGH – GM, CORPORATE**
- MR. RAHUL BHARTI – HEAD, CORPORATE PLANNING**
- MR PRAMOD KUMAR – JM FINANCIAL**

Moderator Ladies and gentlemen, good day and welcome to the Maruti Suzuki Q2 FY11 Results Call hosted by JM Financial Institutional Securities Pvt. Ltd. We have with us the top management of Maruti Suzuki. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Pramod Kumar of JM Financial Institutional Securities Pvt. Ltd. Thank you and over to you sir.

Pramod Kumar Thank you very much Farah. Good afternoon to all of you. On behalf of JM Financial I welcome you all to the 2QFY11 post result conference call of Maruti Suzuki India Ltd. I also take this opportunity to welcome Mr. Shinzo Nakanishi MD and CEO of Maruti Suzuki, along with the senior management team. I would also like to congratulate the top management and company for topping the JD Power Customer Satisfaction Survey for 11 years in row, indeed a splendid performance. And now I would like to handover the call to Mr. Vivek Kumar – Manager, Investor Relations who will take it from here. Over to you sir, thank you.

Vivek Kumar Thanks Pramod. Ladies and gentlemen, good afternoon and welcome to Q2 FY11 results conference call of Maruti Suzuki. May I introduce you to the management team from Maruti Suzuki today... We have our Managing Director Mr. S. Nakanishi, our Managing Executive Officer – Marketing and Sales, Mr. Mayank Pareek. From Supply Chain, we have Chief General Manager – Mr. Deepak Sethi, from Finance we have our CFO Mr. Ajay Seth, our Executive Officer Mr. H. Sakamoto, Chief General Manager Mr. Pradeep Garg and team members of finance. We have from corporate our General Manager Mr. K. D. Singh and Head of Corporate Planning Mr. Rahul Bharti. The conference call will begin with a brief statement on the performance and outlook on the business by our MD, 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 risk that the company faces. And I would 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 MD Mr. Nakanishi. Over to you sir.

Shinza Nakanishi Thank you Vivek. Good afternoon ladies and gentlemen. I would like to first briefly take you through our business and financial performance for the quarter ended 30th September 2010. This quarter Maruti Suzuki had its highest ever sales and grew by 32.9% in unit volumes in the domestic market. This growth in the domestic market was driven by good consumer demand across consumer segment and cities big and small. Despite a number of new options, customer continues to put trust on our products and services. We received very good response to our newly launched and the refreshed models like Alto K10 and the new Wagon-R.

With a scrappage incentive coming off in Europe the demand from the European market was down. We had anticipated this almost one year ago and were preparing for it. We were able to develop non-European market and their volumes contributed to 60% of the total exports up from 20% last year. Our total export volumes declined by 4% in this quarter. With this, the company registered quarterly net sales of Rs. 89,371 million. This is a growth of 26.8% over the second quarter last year and 11% over the first quarter of this year. Our net profit after tax stood at Rs. 5,982 million. It is a growth of 5% over the second quarter last year and 28.5%

over the first quarter of this year. In the quarter we had the positives like good growth in volume and new product launches. I am happy to share, despite high volumes, we were rated by JD Power as the first in customer satisfaction in service for the 11th continuous years. Our score is highest ever achieved in India and the gap with respect to the second ranker has increased. Maruti Suzuki also stood first in JD Power Sales Satisfaction Survey this year. We were able to protect our market share at a same level of the second quarter of the previous financial year. We had challenges like currency fluctuation, commodity pricing and royalty. Our forex hedging policy helped us to offset some part of this impact. In this quarter there was some impact of steel price increase corresponding to the first quarter of this financial year also. I will now share our thoughts on our outlook for the year. We expect the demand momentum to broadly continue in the second half of the year while keeping the base effect in line with market demand we have tried some productivity and innovation measures and increased our production output by almost 10%. We are now producing at the rate of 1.3 million units per year or 110,000 vehicles per month.

We are working hard with our vendors, particularly second tier to increase their capacity and improve their quality and human resource system. Along with preparing and catering to the demand we are keeping a watch on factors like interest rate, fuel prices, liquidity and inflation. In export we will keep our focus on non European markets and we would try hard to meet last year total export volumes. On the cost front we would have to watch forex movement particularly Yen appreciation as we have both direct and indirect exposure to the Japanese Yen. In commodity we have borne some increase in the first half of the year. Looking at the demand momentum there maybe upward pressures in the second half also. We will keep up our efforts in localization and cost reduction to protect and enhance our profit margins. While trying to deliver results in the short term we are also focusing on long term capability building project.

With our recent announcement of Manesar second and third plant, our combined capacity at Gurgaon and Manesar we will reach 1.75 million units by financial year 2012-13. Our R&D test course project and recruitment and training of engineers and designers are on schedule. Work on new technologies like K series engine expansion and new model development is on track. We are working on a localization program with our vendor to bring down the import content in our car and to reduce exposure to the fluctuating currency rates. We are studying how we can improve our outbound logistics to support the best volume with expansion of the Indian car industry. Our vision is sustained leadership and for that we will work to promote the well being of all our stake holders and create value for them. I would now like to invite any question or suggestion you may have. Thank you.

Moderator

Thank you very much sir. Our first question comes from the line of Chirag Shah from Emkay Global, please go ahead.

Chirag Shah

My question would be on forex hedges. What is the current status and how have you hedged yourself for the next six months or one year and what kind of cross currency rates would be there and how are we positioned over there?

- Ajay Seth** Okay Chirag The foreign exchange hedges, on the export side, we are hedged for almost 80% of our total exposure for the year. On the import side, we are hedged for about 25% of our exposure for the year. The currencies in question are Euro and Yen largely. So, that is, one part of hedging which is direct hedging that we do but I think the other painful piece is the exposure which is the indirect exposure of the vendors, because that is a considerable amount of exposure on imports. So that is where we are unhedged. Yen appreciation can put some pressure on us in the next six months.
- Chirag Shah** And this is for next six months but when are these new hedges due for renewal or when are you going to enter into new hedges, when it is due for renewal?
- Ajay Seth** These hedges will fructify in the next six months and we have also selectively started taking positions on next year as well where we find attractive rates for Euro. We have started taking positions for next year as well and I think by the end of next conference call we will appraise you of where we are on that.
- Chirag Shah** But would it be possible for you to give a comment about the current rate that you are getting how are they compared to what you were getting six months back? What is the adverse scenario that you are facing in the current hedges that you have?
- Ajay Seth** On the Euro we are getting much better rates than what was prevalent three months ago or four months ago. On Yen the situation is quite bad. The Yen rates are much adverse than what they were six months ago, however we have a little relief because of the rupee appreciation.
- Chirag Shah** Yeah fair enough. And is there any thought process on raising prices to offset the Yen impact?
- Ajay Seth** No, as of now we are not planning any price increase.
- Chirag Shah** Okay, and is it right to assume that this impact would be visible from the fourth quarter onwards because you have a lag impact in terms of providing compensation to your vendors.
- Ajay Seth** This would be visible from the third quarter onwards.
- Chirag Shah** And is there any M2M loss or gain increase that is there in other expenses?
- Ajay Seth** There is a hedge a gain of 38 crores which has been carried forward.
- Chirag Shah** By the way it has not passed through P&L.
- Ajay Seth** No.
- Chirag Shah** So, there is no other P&L entry of any M2M loss or gain kind of things?
- Ajay Seth** I mean there would be some but they are not material.

- Chirag Shah** And lastly on the capacity side in FY12, can you just run through what kind of capacities you would be having in terms of time horizon, the new plant would start contributing from when and how would it happen? You are at 110,000 units per month run rate right now. How will it increase beyond six months if you can just throw light on that?
- Vivek Kumar** We have Manesar B which is coming in the Q3 anywhere between October to December month of next FY which is a plant of 2.5 lakh capacity and there is a Manesar C of a similar capacity which would be coming in FY13. So the combined capacity in FY13 would be about 1.75 million units.
- Chirag Shah** So we can expect this Manesar B that is in FY2 of FY12 it will be available for use, right 2.5 like capacity that you are talking about.
- Ajay Seth** Some operations, yes.
- Chirag Shah** And any de-bottlenecking further possible for you to take your capacity from 110,000 to say 120,000 to 125,000 in the current capacity rate?
- Rahul Bharti** You know that is very interesting because what we are producing today 110,000 we never thought was possible a few months back.
- Chirag Shah** So you may still be thinking it is not possible and it can happen, right.
- Rahul Bharti** It is difficult now.
- Chirag Shah** Fair enough. So incremental huge chunk of capacity will happen only in the second half of FY12 that is the right way of looking at Maruti's next 18 months, right.
- Rahul Bharti** Yes.
- Chirag Shah** Great thanks, thanks a lot.
- Moderator** Thank you. The next question is from the line of Kapil Singh from Nomura, please go ahead.
- Kapil Singh** My first question is on other expenses, they have moved up significantly quarter on quarter, am I fair in assuming that this is due to several new launches that we have done and if you could give some indicative amount that this maybe related to new launches whatever the amount may be.
- Ajay Seth** The large portion of increase in other expenses is because of the royalty rates which are higher than last year, we had some revision in Royalty rates that we mentioned in the first quarter. So if you are looking at a total increase of 249 crores in this quarter 221 crores out of this would be accounted for just by royalty. So that is bulk of the reason for increase in other expenses.

- Kapil Singh** Okay but even if I look on a quarter on quarter basis, the revenues have grown by something like 11% and other expenses have increased by almost 19%. So just wanted to know if...
- Ajay Seth** So what I am saying is if you were to eliminate the volatility from this the other expense growth would be flat. You know you will actually find that the other expenses have not really increased.
- Kapil Singh** But the royalty was high in first quarter of FY11 also, right.
- Ajay Seth** Yeah royalty was high in first quarter also but because of the exchange rate and because of the mix you know we have had a 0.2% increase in royalty in this quarter. So that itself is going up.
- Kapil Singh** And secondly just wanted to check the presentation talks about some large steel impact of first quarter of FY11 if you could tell us what that amount was and how are you placed on raw material cost going forward?
- Ajay Seth** We saw the steel price settlement in this quarter for the steel that we buy in-house and the impact that has been accounted for in this quarter. So you see an impact of about 0.5 to 0.75% in the margin. The steel price increase that has happened with the other vendors outside is also partially offset with the cost reduction initiatives that we would have taken. On moving forward as Mr. Nakanishi mentioned in his speech that we may see increase in commodity prices given the demand situation and we are also concerned with (a) steel and (b) precious metals because both are looking up at this point in time.
- Kapil Singh** And is this 0.5 to 0.75% related to first quarter of FY11 or....?
- Ajay Seth** Yeah it is a cumulative effect in this quarter, the settlement has been done from a retrospective effect from 1st April.
- Kapil Singh** Okay, so in effect the raw material costs are a little overstated to that extent. So I just wanted to know if you can give us some amount related to first quarter.
- Ajay Seth** It is about half a percent I mean amount of relatively easy to calculate if you look at half a percent.
- Kapil Singh** So half a percent is there in the first quarter. And last question on CAPEX we have done around 500 crores for the quarter so full year guidance still remains at around 1800 crores?
- Ajay Seth** 2800 crores. Yeah we are committed to the 2800 crores.
- Kapil Singh** Right, thank you.
- Moderator** Thank you. The next comes from the line Jinesh Gandhi from Motilal Oswal Securities, please go ahead.

- Jinesh Gandhi** Hi continuing on the question on RM cost you indicated that you have taken price increase with effective from 1st April, how is the situation going forward in second half of FY11 given the current spot prices.
- Deepak Sethi** Well we expect steel to remain flat. You know it could firm up a bit but would be by and large flattish.
- Jinesh Gandhi** Okay and as far as other commodities are concerned, we expect a similar trend or there we are facing some pressure?
- Deepak Sethi** No they will be facing pressure. Like the natural rubber, some of the precious materials, even Copper they are all firming up as it looks.
- Jinesh Gandhi** So if we look at second half then we can see further pressure on margins from current levels given the RM cost pressure and specially since we are not looking to increase selling prices as of now, would that be a right assessment?
- Ajay Seth** There are certainly pressures on account of input cost on one hand and on account of Yen appreciation on the other, so these pressures surely would be there in the third and the fourth quarter.
- Jinesh Gandhi** Okay, and second question in terms of our forex exposure now since there has been significant reduction in exports to Europe how would our forex exposure now shape up between Dollar, Euro and Yen?
- Ajay Seth** Our exports are now divided 50-50 between Europe and non-Europe so 50% of our exports would be denominated in Euros and the balance 50% would be denominated in dollars. So the exposure would come down from what it was say last year but still the exposure in Euros would be a sizeable amount.
- Jinesh Gandhi** Okay, so going forward are we looking at direct Rupee Yen hedges or still we are looking at cross currency hedge?
- Ajay Seth** We are looking at cross currency hedge for sure but provided we get the right price for both the currencies but wherever we find an opportunity for example, Euro today is strengthened quite a bit. So we have taken positions on Dollar Euro because on Dollar Rupee wherever we have natural hedges we would like to keep it open. If we are surplus or deficit then we cover accordingly.
- Moderator** Thank you. The next question is from the line of Hitesh Goyal from Daiwa Capital Market, please go ahead.
- Hitesh Goyal** Just wanted to understand why operating income has gone up so significantly quarter on quarter?

- Ajay Seth** This is on account of higher production. The scrap sale has increased in that proportion, that is one and operating income also includes forex gain of 10 crores that we made in this quarter. So these are two elements which are pushing the income up. So there is an incremental 17 crores on account of higher scrap sales because the production was higher and there is a 10 crores of Forex gain and when we make payments to our vendors, we make early payments and we get a cash discount which was since the payments were also large and so the cash is probably higher by 18 crores. So these are three accounts on which the operating income was higher....
- Hitesh Goyal** okay sir and can you quantify what is the benefit of gas that you are getting in Manesar I mean your power and fuel cost?
- Ajay Seth** The annualized benefit would be in the vicinity of about 30 crores. So in proportion we have got the benefit this year. So the Manesar power cost has accordingly come down.
- Hitesh Goyal** So how much of this 30 crores has come through and how much is left?
- Ajay Seth** Quarterly benefit is about 8 crores so we have realized 8 crores in this quarter. First quarter you will have to take out because first quarter we were doing testing of the facilities and also the impact would start coming in from this quarter onwards so we have seen impact of about 8 crores. And the same amount of impact you should see in the next quarters as well.
- Hitesh Goyal** Okay, so basically 22 crores is left for the second half in terms of benefit.
- Ajay Seth** 16 crores.
- Hitesh Goyal** Okay, thank you sir.
- Moderator** Thank you. The next question comes from the line of Shiv Chanani from Reliance Mutual Fund, please go ahead.
- Shiv Chanani:** Sir, just directed to Mr. Mayank Pareek, in fact contrary to what was talked about earlier, I see that the selling expenses has actually come down this quarter and are probably one of the lowest in the last several quarters. So how should one look at this and should one actually look at going up a little bit going forward?
- Mayank Pareek** Yeah selling expense has come down. You read it rightly, see market is very buoyant and there is a huge demand for our products. All our newly launched products have found very good support in the market. So naturally when market is good the saving expense have to come down.
- Shiv Chanani** So should we expect them at the current levels going forward at least for let us say the rest of the year.

- Mayank Pareek** See it is a function of what competitive activities are there. Which we do not know and how the market pans out. We expect the market to be quite robust in the remaining part of the year but we will have to follow what competitors do. Then on that the response will depend. So it is very difficult to answer those questions that how will sales and advertising expense pan out.
- Shiv Chanani:** Alright, thanks a lot, and just a second question on the hedging part, kindly elaborate a little bit on the import side. you are at 25%... is it because you were always taking the Euro, Yen hedge and since your exports has come down that is why you are caught a little short on the import side as well?
- Ajay Seth** No, it is by design. We have taken adequate Euro Yen hedges we always try to keep a cushion on not going overboard but I think the issue was that the demand was much more than what we anticipated and each month we are finding that it is going up, so to that extent I think the budgets have got revised and therefore there is an incremental impact of sold amounts. Also including the payout of royalty which is an addition because of that we have these covers which have not been taken.
- Shiv Chanani** And would you again like to wait for right rate to hedge going forward or do you think you will just hedge irrespective of what the rate is at some interval?
- Ajay Seth** We believe that 80 is the bottom but we will keep a watch on the market and at an appropriate time we will take our hedges but we believe that 80 is the bottom but the way it is moving, one cannot predict the forex markets.
- Shiv Chanani** Absolutely. Thanks a lot.
- Moderator:** Thank you. Our next question is from the line of Sahil Kedia from Enam Securities, please go ahead.
- Sahil Kedia** If you can shed some light in terms of how the response is being for your CNG variants that has been launched and an outlook from a medium term perspective on those products and how you see that as a segment shaping up?
- Mayank Pareek** Yeah, I will take that question. I think before understanding CNG, just understand in CNG one basic criteria is availability of CNG across country. As of now it is not available across country so we had a very limited launch in August this year basically in markets of Bombay, Gujarat, and Delhi where we have enough of CNG. Now in these markets response rate has been overwhelming. Currently, it is around 15 to 18% of sales in these markets in CNG and we expect as we go along it will go up. But for the medium to long term; it all depends on expansion of CNG. We track very closely with authorities and what is expansion plan in terms of laying the pipelines and we expect CNG will assume a very important part of the fuel basket. And we are working on that hypothesis.

- Sahil Kedia** Okay. And how would the profitability on some of these products compare? Would it be better or lower, just trying to understand from a directional perspective than your existing product?
- Ajay Seth** See the way we look at profitability is on a blended basis. We do not look at it on one model. Also when you launch a model there would be lower profits which go up at least for few years. So the best way to look at profitability is to look at a blended basis always and there will be different strategies that we would have on pricing for different models.
- Sahil Kedia** Sure. Okay sir, one last question. Can you throw some light in terms of how the pricing and the volumes have been for the festive season in terms of discounts, and general volume off take?
- Mayank Pareek** Yeah, festive season is very good, in fact we are in the midst of a festive season and we see,, compared to last year, almost 20-25% growth and this is the across-segment across country the demand is very robust.
- Sahil Kedia** And discounts?
- Mayank Pareek** So naturally when the price demand is very good there are no discounts left. I think they are operating around 18% less discount than last year in the festive season.
- Sahil Kedia** Alright sir this has been helpful. Thank you so much.
- Moderator** Thank you. Our next question is from the line of Jatin Chawla from IIFL, please go ahead.
- Jatin Chawla** My question pertains to your yen exposure. Basically I want to understand what is the import content at your vendors now? I know that you have been working on reducing that in last one two years and with the change in royalty payments what is the total yen exposure including direct and indirect?
- Ajay Seth** Our total import content direct and indirect put together is about 28% of our net sales. So that is the total exposure, now 80% of this exposure is yen exposure.
- Jatin Chawla** Okay and this 28% include royalty right?
- Vivek Kumar** Yeah, that is right.
- Jatin Chawla** And how is the import content in vendor chain in the last two years?
- Ajay Seth** It has come down a bit. It has been offset by the increase in exposure on the royalty front.
- Jatin Chawla** Okay and what was the average discount during the quarter?
- Ajay Seth** The average discount during the quarter was Rs.8500.

- Jatin Chawla** Which is roughly the same as last quarter right?
- Ajay Seth** Last quarter was slightly lower, first quarter was 8200.
- Jatin Chawla** Okay. Thank you sir. All the best.
- Moderator** Thank you. Our next question comes from the line of Amol Bhutada from Elara Securities. Please go ahead.
- Amol Bhutada** I just needed some clarity on India's specific model when we come out of where Indian R&D, what kind of royalty will they attract and how do you see royalty going say 5 years from now?
- Rahul Bharti** We had talked that the Indian R&D that we are planning the first phase is about having the same platform under different body shell on top of that, something like what we do a Dzire over a Swift or something like a Ritz over a Swift. So to that extent whatever the value adds will be, it will be evaluated at the time of model launch and it will be adjusted accordingly. It is difficult to have a view on the total technology cost over the next five years because we do not know what kind R&D inputs our Indian engineers and our vendor be ready with but we will obviously watch the figure and we will try to control it.
- Amol Bhutada** Okay. Sir secondly you said your non-Europe exports as come off significantly, so out of the total exports in the way planning for say for FY12, how much do you see will be non-Europe and you if you could just give a further clarity in the what geographies your are targeting?
- Rahul Bharti** See in non-Europe we have targeted geographies like Africa, Australia, New Zealand, Indonesia, Malaysia, etc. and this primarily is a function of 1) How those economies and markets are recovering and 2) Our efforts to reach out to those markets. It also depends on how Europe will come back, if it comes back by next financial year. So the percentages will depend on that but we will try to keep hedging our position so that we are derisked in the whole export model.
- Amol Bhutada** So how is the mix as of now for Europe and non-Europe?
- Rahul Bharti** As MD said in his speech. In this quarter we have attained 60% non-Europe.
- Amol Bhutada** Okay, thanks. Thank you, sir.
- Moderator** Thank you. The next question comes from the line of Saurabh Das from Sundaram Mutual Fund. Please go ahead.
- Saurabh Das** I just had one question on the diesel portfolio. What is diesel as a percentage of our total portfolio now that you have mentioned CNG is somewhere around 17-18% in the markets we are there but for diesel what is the percentage of total? The second is are there any thoughts on expanding the diesel engine portfolio beyond the 1.3 in the next say 2-3 years either from our existing partner or from VW if there are any talks? And finally are there any joint sourcing

arrangements with VW as certain articles in the media are being reported is there any thought regarding that and have we started working towards it?

Shinzo Nakanishi

We are having the diesel version in Swift, Dzire and Ritz and you know in all of these models except the Ritz, say 70% of the Swift or Dzire will be a diesel version and in case of Ritz it is 55% and 45% is petrol. So roughly the 17,000 units monthly is diesel demand and second question is you were saying, right now we have the 1.3 litre and there is no plan to introduce any other type of diesel in our portfolio. Therefore, right now we do not have any plan of getting a different source for the diesel engine.

Saurabh Das

If I can squeeze in one more question. At some point, we were selling you know selling the Astar as Pixo to Nissan now with Nissan having set up their own manufacturing capacity. but are there any similar thoughts of badging cars for VW at some point say over the next two years, is there anything in the pipeline.

Shinzo Nakanishi

About the Volkswagen issue right now our parent company Japan and Volkswagen Germany is under discussion and doing the negotiations. So till today, no news from Japan came to us. Therefore, I hope sometime end of the year or beginning of the next year they may announce some project. By this time, I am not in a position to talk about any project, in fact I do not know exactly.

Saurabh Das

Thanks, thanks a lot for this opportunity. Thank you and all the best.

Moderator

Thank you. The next question comes from the line of Vishal Saraf from SBI Mutual Fund. Please go ahead.

Vishal Saraf

Hi Sir, sorry to again come up on the exchange scenario, but early in the con-call you have mentioned that at the beginning of the year. We had around 50% of our export which were hedged by way Euro-Yen hedges and given that we have utilized a lot of them and again now we have 80% of our exports hedge, can you give a blended rate at which covers that are there at the beginning of the year vis-à-vis the rate at which it is covered now.

Ajay Seth

You know there are different covers that we would have taken, you know there Euro-Yen covers that we have taken, there are dollar-rupee cover that we would have taken and there are covers that we would have taken for some exposure that we have in pounds. So there are different covers for these exposures. I can give you a blended rate that we achieved in the first half for Euro we achieved a rate of around 62 to rupee on the export side on imports we were able to achieve a rate of 0.506 Yen-to-rupee so this was a blended rates that which we could achieve. I do not have the exact numbers here with me for the blended rates.

Vishal Saraf

Okay and so more structurally in terms of profitability in export, one year back when we were actually scaling up exports you mention that since you are not doing the marketing job in export market probably the profitability there would be lower and now further with rupee appreciation, how do you see the margins per se in the export segments, has it eroded further

and would there be significant margins differential now between exports and the domestic market?

Ajay Seth I think last year was a very exceptional year where we had significant margins on exports because the way Euro behaved and we averaged at 67-68 and towards the end we were at 70 rupee to a Euro. So exchange I think has a big play on where the margins go. So now for example the exchanged rates have moved by 10% in last 6 months. So there would be an erosion of margins to the extent of 10% which was in the exceptional margin that you were earning last year. But if Euro comes back to the level at which they were in 2008-2009, we will tend to see better margins.

Vishal Saraf Yeah, but if you say a 10% margin erosion in a business where we have close to 10% EBITDA margins or say 2-3% here or there so are we at zero profitability kind of a marginal profitability in export market?

Ajay Seth See we do not disclose margin by models.

Vishal Saraf Right.

Ajay Seth By segment but or I can say is that whenever we find that there are pressures on account of various things, we take corrective action as when required.

Vishal Saraf Okay. Sir just one more point on the raw material side like you mentioned this quarter we have given price hike to steel vendors and price hike to other components vendors typically happen within time lags when steel start reflecting into their cost. So what kind of price hike are we looking at passing on to our component vendors in third and fourth quarter?

Rahul Bharti What we settle is commodity prices. component vendors use it to add some value and give components to us. And component price changes are very different from commodity price changes and as Mr. Deepak Sethi informed steel looks neutral or may see upward pressure in the second half of the year. For the components on the value add, there are several areas of cost reduction some areas of increases and we keep discussing with our vendors in very collaborative way how we can best reduce our cost.

Vishal Saraf Okay. So for the steel we would have already given price hike even to vendors for the metal part of their supplies?

Rahul Bharti Yes.

Vishal Saraf Okay, Sir that is it from my side.

Moderator Thank you. The next question comes from the line of Sonal Gupta from UBS, please go ahead.

Sonal Gupta Just wanted to understand, because Nakanishi Sir mentioned that we are working on increasing the localization so just wanted to understand what is the plan over the next 2-3

years how much would localization really have and secondly like you mentioned 28% of net sales in terms of imports seems a very high number given that you have been here for more than 25 years. So could you just highlight what are the key components which are imported by vendor which are a big portion of the cost?

Rahul Bharti

Okay. Sonal the first thing that we need to understand is that technology of our cars is going up significantly which is reason some expenses go up which is the reason why some high tech components need to be imported. There are lot of electronics in the car that is going up and we need to do it because our competition is global. The second that we would like to tell you is that while there are efforts and implementation going on the localization in the existing models we must consider the rate at which we are launching new models; the newly launched models have a higher import content than what they would be after a year or so. So we are trying to reduce it but it is not a very easy exercise particularly when the technology mark itself is going up.

Sonal Gupta

Okay. Just on the export front I understand that last year you were making slightly exceptional margins because of the Euro strength in terms of increase but the USD also depreciated against the rupee so any thoughts or any price increases on the export front or are you comfortable versus your budgeted margins for these products?

Ajay Seth

I think it is relative to the markets what will be absorbed, so we are examining all the possibilities and we go market by market to see what is possible, what is not possible. But at the threshold we will keep in our mind what is to be protected as we had committed.

Sonal Gupta

Okay and can you tell us what was the proportion of rural sales for you?

Mayank Pareek

19%.

Sonal Gupta

For the first half or the second half?

Mayank Pareek

Yeah for the first half.

Sonal Gupta

Okay. Thank you.

Moderator

The next question is from the line of Pramod Amte from RBS. Please go ahead.

Pramod Amte

Hi, this is question is related to marketing. We have already seen a flood of new vehicles being launched in the first half. Wanted to get your take on which you see as most promising ones or most threatening ones for you? And second going forward there seems to much more thirst on the diesel segment of the cars in the second half from the new launchers. How do you look at that in the context of competition?

- Mayank Pareek** Yeah you asked which are the promising models.... On a lighter note all Maruti models I think are promising.
- Pramod Amte** No, on the competition side.
- Mayank Pareek** No, I think it is important to take everybody seriously, we respect each competitor and we make our marketing plan accordingly. I would not like to single out that this one is more promising than the other. I am sure they would have done their studies and launched cars. The fact remains that for six months even after so many launches we have grown by 28% and that is the outcome actually.
- Pramod Amte** But do you think the worst is over or do you expect them getting more volumes
- Mayank Pareek** I would not like to call it best or worst. See ours is a growing economy and emerging, one of the fastest growing car market in this world and in that everybody can come and play. It is fair to assume that everybody would like to try their products and services but we are confident that we have enough strength now and going forward. We are investing enough to develop our strengths to compete successfully.
- Pramod Amte** And second you were planning to set up own showrooms or display center few quarters back. Any progress on the same or that project has been shelved or what is the....
- Mayank Pareek** No not at all shelved, what we had said was that we will be.... it has two parts one that we will be opening our stockyards across the country. So the project is going on we expect that the first stockyard in Bangalore should be ready in this financial year, or later towards this financial year. And secondly we are not opening showrooms, what we are opening is display center in all our regional office facilities in 16 towns. So I expect early next year first few of such facility should be ready.
- Pramod Amte** Thanks and all the best.
- Moderator** Thank you. Our next question comes from the line of Rajat Chandak from ICICI Prudential. Please go ahead.
- Rajat Chandak** What were the export sales in terms of money for H1?
- Ajay Seth** We will just give you the figure. You can go ahead with the next question we will just give you the value at the moment.
- Rajat Chandak** Yeah just a couple of clarifications, you said some RM cost is related to Q1 FY11 so to that extent our RM cost are higher in this quarter are probably would look lower going forward.
- Vivek Kumar** Let me answer your first question first, you talked about the exports turnover in the first half was about 2100 crores.

- Rajat Chandak** If am I correct you mentioned some RM cost is related to Q1 of this year and so to some extent our RM cost is higher, is that correct?
- Ajay Seth** That is right; the steel price increase we have given this year was on account of Q1 as well so that extent there will be slight aberration on the cost. We said 0.5% pertains to Q1 and other 0.5% to Q2.
- Rajat Chandak** Secondly you said you have covered 25% of your imports for H2. Would that be 25% of your net exposure?
- Ajay Seth** 25% of our imports exposure so whatever exposures that I have on my books directly 25% of that has been covered. 75% is open.
- Rajat Chandak** And 80% of export is hedged.
- Ajay Seth** That is right.
- Rajat Chandak** Can I get this for the similar period last year H1 FY10?
- Ajay Seth** **about** 2270 crores.
- Rajat Chandak** Okay, thank you Sir.
- Moderator** Thank you. The next question comes from the line of Govind Chellappa from Credit Suisse.
- Govind Chellappa** I just wanted to understand your export strategy. If you could take a step back two years ago when you started exporting to Europe, the underlying logic was that you want to concentrate on one market a particular model and that will give you scale advantage, etc. Now we have come where European demand has collapsed and it is also the time that you are struggling for capacity in domestic market where as you highlighted pricing mix, etc., is very good. So why bother developing new export markets now when you are losing market share to your competition in India and some of these market share losses are difficult to get back. So what is the underline thought of doing this at this point in time. Secondly, just wanted to understand what is pricing strategy in Europe especially? Does Maruti decide the pricing or Suzuki? And thirdly is there any understanding with Suzuki on who takes the currency risk or is my understanding that any transaction with Suzuki the currency risk is taken by Maruti?
- Shinzo Nakanishi** A-Star we especially export as an export model. for the Europe mainly. Therefore we focus on the Europe market. In addition to that we are exporting other existing model as well, for example, the Zen Estilo, Alto 800, and even the Maruti 800 as well. Otherwise you say like the European Asian market becomes dull. Therefore we are obliged to reduce the export over the A-Star but instead we increase other existing model export through the non-European market. That is why we are increasing the non-European market. We do not only the A-Star but also other model as well. And pricing strategy, price will be decided by the market, not us, not Suzuki. Therefore we discuss, see the markets, in Europe, market situation and then we

decide where and how it will be priced then Suzuki has nothing to do with this one. Suzuki distributes in Europe and is our partner in Europe. Then Suzuki Japan has nothing to do with our export business.

Govind Chellappa Sure. I understand it Sir. My question was actually you know if in a profitable market you have shortage of capacity and because of currency you are not too profitable export market, you know you are focusing on. All that I wanted to understand is would it not make sense for you to shift that capacity and make sure that your core market which is Indian market is supplied to and you do not lose share to your competitors.

Shinzo Nakanishi Oh you are saying profitable market. Europe last year? Yes. But this year no.

Govind Chellappa Okay Sir, thank you.

Moderator Thank you. Our next question is from the line Ambrish Mishra from MF Global. Please go ahead.

Ambrish Mishra It was mainly leading to a slightly macro picture broadly you mentioned about couple of factors as headwinds for the demand environment going ahead though the momentum at this point of time appears to be fairly strong but in your analysis which would be the key factors that you feel would be the key headwinds for the domestic demand and why so?

Ajay Seth I think all experts have projected that Indian market will continue to grow very robustly in fact surveys ballpark point out that the market in 2015 will be around 4-4.45 million vehicle annualized from around 1.97 of last year. Now there are many drivers for this type of optimism. Growing economy, growing per capita income, improving road infrastructure, good financial options but I think according to me the most important driver is the demographic dividends which India is going reap in future. This post-90 generation which is entering the market, this is young, they have aspiration and they have money power to realize their aspirations. So this is what is driving the growth and going forward I think this should continue.

Ambrish Mishra Actually my question was what could be the headwinds that this environment or the demand momentum can face which can actually lead to below expected demand, may be not immediate future but in the medium term.

Ajay Seth Yeah. If any of these drivers fail to meet the expectations. For instance the economy which is growing at 8-9% If somebody can say it will grow by 2 % the great old Hindu growth rate, then it is a problem or let's say infrastructure India stops constructing roads then there is a problem or very unlikely that suddenly demographic dividend disappears very unlikely or there is financial monetary type so money is not available for finance. But they are obvious there is a growth story but I think very unlikely scenario.

- Ambrish Mishra** Thanks. The staff cost on the sequential basis have been lower, I mean though the change is very small but any specific reason for it.
- Ajay Seth** Staff cost is largely to do with salary correction that we do every year and also there has been increase in manpower in line with our capacity enhancement. So there are people who have joined in engineering, there are people who have joined in other areas. So it is combination of the increments and promotion costs which have gone up and also the number of people increase and also there was this change in gratuity rules the limit from 3.5 to 10 lakhs. This will have an additional impact because of that as well.
- Ambrish Mishra** Actually I was talking about from Q1-Q2, the staff cost is lower.
- Ajay Seth** Oh that is because of some one-time item whereby there was a large impact in the quarter 1 which was not repetitive so it is basically because of that.
- Ambrish Mishra** Thanks a lot and all the best.
- Moderator** Thank you. Our next question is from the line of Shreya Gaunekar from Morgan Stanely. Please go ahead.
- Shreya Gaunekar** Hello sir, this is Shreya from Morgan. Sir two questions firstly on royalty like this quarter we saw around a 0.2% increase in royalty and you said it is predominantly because the mix. Could you elaborate on that? And secondly there were recent media articles about the India and the Japan Comprehensive Economic Partnership Agreement and a potential impact on car prices, could you throw some light on that?
- Ajay Seth** On the royalty, the mix depends on some cars we do not pay any royalty at all because the old models like 800, the Omni and Gypsy and on the other models we pay royalty at increased rates. So it depends on what proportion is the old model versus the new models and if there is any change the royalty can go up or down. That is one thing and the second is
- Shreya Gaunekar** And nothing on domestic versus export.
- Ajay Seth** I mean the exports also are a part of it, we pay royalty on exports as well so we are also saying that when we talk about models we also talk about domestic and as well as exports all put together. And the second of course is how they exchange rate moves on the Yen because it is all payable in Yen, so if you exchange rate is adverse you may see marginal impact or that account of royalty on going up. So it is a combination. 0.2% will be a combination of these factors.
- Shreya Gaunekar** And how do you see royalty in the long run? Given the fact that the product life cycle is reducing and there will be more and more upgrades playing out. How do you feel royalty trending up in the long run?

- Shreya Gaunekar** Royalty is linked to a model, for a life or an agreement that you pay for each model and it is payable till such time that the agreement is in existence and the moment the agreement lapses the royalty stops being include that is how it will continue.
- Shinzo Nakanishi** Regarding the EPA between India and Japan, yes of course we have heard and we have seen agreement of the above said countries and we do not know the exact gross or exact issue or item. Therefore right now we try to see the detail agreement of the above EPA whether there is a related item to us or not but now we are examining.
- Shreya Gaunekar** Okay. Sir any views on the long term trend in realization that you would say like not one quarter but over a longer period of time.
- Ajay Seth** Realization now will be in line with the volume growth, see the mix impacts are settled so whatever volume happens you will find realizations aligned to that.
- Shreya** Thank you Sir.
- Moderator** Thank you. Ladies and gentleman due to time constraints we will take one last question it comes from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.
- Jamshed Dadabhoy** Sir, I just wanted some thoughts on your pricing strategy in India, now that you all have indicated you all had increased prices sometime in August to offset certain cost pressures but if you look at your 1Q and 2Q average realizations net of excise they have barely moved and this in a quarter where discounts have actually remained quite flat quarter-on-quarter any thoughts on this?
- Ajay Seth** Okay. I think as what MD said for export market, price is decided by market we will have to see.
- Jamshed Dadabhoy** The domestic market only.
- Ajay Seth** Yeah that is applicable in domestic market also, there is no difference. Customers are same and it has to depend on the market situation so you cannot just be prisoner of one policy, this is the way to my policy going forward. We naturally see an opportunity, we see what is happening in the market what competitors are doing, naturally there is always a pressure on margins, commodity prices go up, etc. That is the True Maruti Suzuki philosophy first thing is that we try to see how we can absorb internally, including productivity including efficiency and only that we very reluctantly consider a price hike.
- Jamshed Dadabhoy** Sir my broader question is something like this if you look at your average prices over the last six months they have actually fallen now how much of this is due to mix and how much is due to discounts?
- Ajay Seth** The average pricing would have fallen because of export realization going down because if are looking at the total because you will not have the split there, export realization are

significantly fallen a) because I said 10% difference on exchange rates, in fact on top-line it will be even more than 10% and b) the county mix has change so Europe proportion has gone down and other proportion has gone up so because of that you find the realization has fallen.

Jamshed Dadabhoy Okay fine thank you for that sir. Is there is any cost escalation built-in on the royalty?

Ajay Seth Cost escalation?

Jamshed Dadabhoy Yeah, is it fixed amount that you all have or is it a fixed amount which will increase gradually year on year?

Ajay Seth No, we said that our royalty would remain in this vicinity barring the reasons of exchange rate or product-mix changes other than they would be no change.

Jamshed Dadabhoy Okay. Alright, fine thank you so much Sir. Bye.

Moderator Ladies and gentleman that was the last question, I would now like to hand floor over to Mr. Pramod Kumar for closing comments.

Pramod Kumar Yeah thank you Farah. I would like thank all the participants on the call and the management team from Maruti Suzuki. Have a great weekend all of you. Take care bye.

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