"Maruti Suzuki Earnings Conference Call"

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MODERATORS: **MR. S. NAKANISHI**
MR. MAYANK PAREEK
MR. AJAY SETH
MR. S. MAITRA
MR. PRADEEP GARG
MR. H. SAKAMOTO
MR. K.D. SINGH
MR. RAHUL BHARATI
MR. RAVI IYER
MR. AMIT KASAT

Moderator Ladies and gentlemen good day and welcome to the Q2 FY12 Financial Results Conference Call of Maruti Suzuki hosted by Standard Chartered Securities India Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Amit Kasat. Thank you and over to you sir.

Amit Kasat Thanks Marina. Good morning to all of you on behalf of Standard Chartered Securities India team I welcome come all of you for the 2nd quarter FY 12 results conference call of Maruti Suzuki India Limited. I also to take this opportunity to welcome Mr. S Nakanishi, MD and CEO of Maruti Suzuki along with the management team. I would now like to hand over the call to Mr. Nikhil Vyas who will take it from here, over to you Nikhil.

Nikhil Vyas Ladies and gentlemen of good morning once again. May I introduce you to the management team from Maruti Suzuki. Today we have with us our MD and CEO – Mr. S Nakanishi, we have with us our Managing Executive Officer, Supply Chain – Mr. S Maitra, Managing Executive Officer, Marketing and Sales – Mr. Mayank Pareek. From finance we have our CFO – Mr. Ajay Seth, Executive Officer – Mr. H Sakamoto, Chief General Manager – Mr. Pradeep Garg and the team members from the Finance, we have with us our company secretary Mr. Ravi Iyer from corporate. We have the General Manager – Mr. K D Singh and the head of Corporate Planning – Mr. Rahul Bharti.

The con call will begin with a brief statement on the performance and the outlook for business by our managing director after which we will be happy to receive your questions. May I remind you of the safe harbors, 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 MD, Mr. S Nakanishi, over to you Sir.

S Nakanishi Thank you Nikhil. Good Morning Ladies and gentlemen before we start me share a piece of news that I just received. Customers have ranked us first in customer satisfaction in the JD Power survey for the 12th time in a row; we thank our customers for trust in us. You would have seen our financial results for the second quarter and the first half of the year. As you would have discovered this quarter saw a combination of the toughest challenges in the history of Maruti Suzuki, petrol prices went up 20% in nine months, interest rates were increased three times in the past one and half a year. The four wheeler Indian passenger vehicle markets shrunk by more than 4% in the quarter as consumers were concerned on the running cost of their cars. The small car segment being the most cost sensitive segment was hit the most. A gloomy market had to be supported by all-time high discounts and increased product communication; the Japanese yen appreciated almost 20% from 54 paise to 64 paise within one quarter. Commodity prices also continued to be high despite our low growth scenario. We also had an unfortunate industrial **regulation 3.50** program in Manesar. It was important that the solution will we arrive at it is a long term sustainable solution and not give in to short-term pressures, last but not the least coinciding with this competition continued with their plans to launch cars in volumes segment, the combination of these factors had a strong impact on both of our revenues and profit margin.

The company registered in a quarter in net sales of Rs. 75375 million a decline of 15.7% over Q2 last year the net profit after tax stood at Rs. 2404 million a decline of 59.8% over the same period last year. I would now come to the outlook of the second half of the financial year external factors like interest rates, fuel prices, foreign exchange and uncertainty of government policies on diesel continues. They may impact our performance of adversely on the remaining part of the year. We will concentrate on factors within our control, unprecedented challenges have to be met with unprecedented efforts. The demand outlook after the festival period is still not too bright. We have to increase our customer contact efforts through our network and our sales force. We have started afresh to build a good and positive environment at Manesar. We are trying to explore diesel engines supplies from Fiat India and we hope to make it operational by January. We will double our efforts on localization of vendor import. We do not expect much benefit from our commodity prices so we had to make extra effort on controlling all costs and expenditure with austerity. We have few confident customers have decided to stay with us even in uncertain environment. In our world full of choices the Swift still commands bookings of about one lakh while we are sorry for the delay we will try to solve them at the earliest. We also have strong product pipeline to keep exciting our customers for the long term we have full faith in the growth potential of India and are committed to invest in expansion. We have identified land in Gujarat in Mehsana for this purpose. The board has approved purchase of land for future expansion. I would now like to invite any question, feedback or comment that you may have. Thank you.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from Binay Singh from Morgan Stanley, please go ahead.

Binay Singh Good morning sir. My question is on the ForEx strategy could you throw some light on the ForEx rates that you would have had now for Q2 on your raw materials side. How are the ForEx hedges for Q3 looking like and what is the ForEx strategy with regards to yen how far have we progressed on localization and are we planning to hedge it now, what is your view on that?

Ajay Seth We on the second quarter we will largely hedged as far as our imports were concerned on yen and there was not any significant impact on account of ForEx on the direct imports, however there was a mark to market impact on royalty because royalty is actually paid in the month of November so to the extent of accumulated provision of royalty we had to mark to market royalty which was a large impact and we had earlier mentioned that about 100 crores impact on account of royalty on mark to market and the current royalty provisions compared to the first quarter came in. The current position of hedges is that we were hedged till October but we would not hedged beyond that a bit of good news is that yen has corrected now today there was a major intervention and yen has seen levels of 79.20 and we're hedging at these levels so we are now trying to cover the rest of the year at these levels, so you may see some improvement compared to the second quarter as we go forward however a bit of negative air is that as far as venders are concerned we normally compensate them based on a quarters lag. So the second-quarter rates are going to hit us in the third quarter as far as vendors indirect import content is concerned and that could be a bit of a dampening factor on exchange but net-net if you were to see going forward in the third and the fourth quarter I think there would not be any significant exchange lost because what we gain here partially we will get neutralized with what we lose at the venders end on account of the compensation. As far as strategy on the ForEx is concerned I think it is more market-driven, we try and cover 3 to 6 months depending upon where the market is at a given point in time so we will continue focusing on the same strategy but we will look at every opportunity we get in the market and try and cover our exposure to the extent that we can.

Binay Singh Is it fair to assume that in Q2 in your raw materials were probably hedged at somewhere around very similar to the rates 79.2 that you are seeing over here, 79 or 80?

Ajay Seth Slightly over that we were hedged at slightly over those rates.

Binay Singh Secondly like in Q2 we did see a inventory in the system going down did it result in discount coming off and how do you see October and discounting and all playing out in October?

Ajay Seth This year predominantly you are seeing that two basic changes have happened in market which effects the discount one is in view of what our MD mentioned that extraneous situation like interest rates going up, fuel prices changing etc. there has been a stress in the market and second thing there has been a big shift in product from customer preference from petrol to diesel as a result of this the discount level in first six months has been definitely higher or marking for the competitors throughout the product range. Going forward I do not think they will go up they could stay at the similar levels.

Binay Singh Thank you sir I will come back with further questions.

Moderator Thank you, ladies and gentlemen in order to ensure that the management is able to address all the questions from the participants please limit your questions to 2 per participant. The next question is from Kapil Singh from Nomura, please go ahead.

Kapil Singh Good morning sir. My first question is on raw material to sales we have seen an increase here if you could just help us understand that whether the commodity prices or the material prices went up or is it a reflection of the mix, I'm talking about the second quarter in comparison to the first quarter?

Ajay Seth Kapil largely on account of higher discounts as Mr. Mayank Pareek just mentioned because discounts are netted out from sales so that accounts were much higher than the first quarter and therefore the gap that you see between the first and the second quarter is largely on that account. Raw material costs are more or less the same as the first quarter they have not changed in fact there is to be a marginal reduction which is immaterial actually but largely on account of discounts.

Kapil Singh Can you say share numbers like what was the discount in the 1st Quarter and what is it in the 2nd Quarter, average?

Ajay Seth The discounts have gone up from Rs. 9500 per vehicle to about Rs. 13,500 per vehicle average.

Kapil Singh Is it also because you are not selling Swift and Dzire so the average discount looks very high?

Ajay Seth Yes, partially that's one of the reasons.

Kapil Singh Okay and the second question is relating to price increases. How does the company decides when to take price increases because margins are being coming off and it does in your past experience does a 1% price increase really effects customer demand?

Ajay Seth Price increase is very considered decision and depends on various factors including the market situation and naturally when as you have rightly said that there are pressures on the margins and for various reasons and one of the options in that time is price increase. Other thing which Maruti traditionally do is whenever there is pressure like this, in fact this pressure is always there, the first thing we do is, we try to see how much internally cost-reductions we can do? How much efficiency improvement, productivity improvement, __(14.15) and cost reduction we can do. Only after that we take it call on price increase which anyway is the very tough call. In this today's current, today's competitive scenario and especially the sluggish market there is not much margin left for price increases.

Kapil Singh Okay and sir, if you could share the export revenue for the quarter?

Ajay Seth Kapil, we will just come back to that.

Kapil Singh Okay sir, thanks.

Moderator Thank you. The next question is from Himanshu Sharma from JM Financial. Please go ahead.

Pramod Kumar Hi, this is Pramod Kumar. Thanks a lot for the opportunity sir. Just couple of questions on the result. On other operating income though our revenues declined___(15.05) the other operating income is about 100 crores so if you can throw some light on that as to whether it's a recurring or there was a one off on that account and also if there are any one offs on the expenditures side as well?

Ajay Seth The other operating income there have been some write backs. Now the other operating income will keep fluctuating quarter on quarter depending upon some excess provisions which exist they had to be written back etc. So in this quarter they were right backs which were larger than what it normally is. So you see a larger proportion of write backs and other income therefore.

Pramod Kumar So is it 100 crores will be larger due to write offs or write backs in other operating income level?

Ajay Seth A major portion of it about 60 odd crores would be because of that and the balance is a normal other operating income. So to that extent I think you can say that the right backs were shade higher than what they are in the usual quarters.

Pramod Kumar Okay and similarly what are the other one offs on the expenditure factor especially?

Ajay Seth The only one off that I, there are two one offs ones is the mark to market on commodities that we have done the impact of which is about 27 crores on P&L. The second is the mark to market that we have done on royalty provisions for the 1st Quarter which is about 50 crores. So these are two one-offs on the expenditure side.

Pramod Kumar For the 50 crore entirely pertains to Q1 on the royalty side?

Ajay Seth That is right.

Pramod Kumar Okay. Thanks a lot and best of luck.

Moderator Thank you. The next question is from Sahil Kedia from Enam, please go ahead.

Sahil Kedia Thank you for the opportunity. Sir, wanted to get a sense of really how the festive season has panned out and also as you mentioned in your opening remarks that the depreciation is higher because of Manesar new plant coming in. Can you just tell us in terms of what is the impact and was it for the full quarter or was it for some part within the quarter?

Mayank Pareek I will take the first Mayank here Sahil, I will take the first question on festive season. The festive season on which the whole industry was putting its hope has been more or less, almost same like last year for example just this Diwali season we had almost 2% to 3% better than last year Diwali.

Sahil Kedia How do you see volumes kind of going ahead in October-November, if there are sense that numbers are looking in terms of better or do you think that the volume is going to remain weak?

Ajay Seth No one important thing you must understand is that as MD mentioned in his opening remarks because of the unfortunate labor disturbance which we had in the plant that major effect of that will come in October. So October sales will not be really up to the mark. In addition to that the basic stress point which we have stressed earlier is interest rate going up and fuel prices putting it stress in the market and general sentiments not being so good. That continues to impact market situation.

Sahil Kedia So sir, as we understand that there is a lower discount in October than it was in September. Is that correct?

Ajay Seth No, that is not correct.

Sahil Kedia So the discounts actually remained at 13,000 odd even in this month?

Ajay Seth More or less yeah.

Sahil Kedia Okay and my second question if you can kind of talk about the depreciation front?

Ajay Seth Yeah, the depreciation of the new plant was for a small period because the plant got capitalized sometime in September. So we have taken the depreciation for two weeks now. The full impact of depreciation would be seen in the 3rd Quarter and the impact in this quarter was about 10 crores which will is likely to go up to about 30 crores in the 1st Quarter.

Sahil Kedia 30 crores will be a per quarter number?

Ajay Seth That is right.

Sahil Kedia Sir, that actually doesn't because you mentioned it is 10 crores for two weeks, right sir? It should be roughly about 20 crores per month. So if it on a normal quarterly basis it will be much higher than 30?

Mayank Pareek Sorry one month, I stand corrected its one month not two weeks.

Sahil Kedia Okay, if you can just repeat that you had an impact of 10 crores.

Mayank Pareek 10 crores one-month and the recurring effect is 30.

Sahil Kedia Okay sir, thank you so much.

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

Rashi Talwar Good morning sir. I just wanted to get an idea on the indigenization program that you were going ahead with the vendors. Large portion of it was supposed to kick off on 1st of October and obviously how is that going and what should we expect from it?

Mayank Pareek This program which was to kick off on the 1st of October has already been kicked off and we have been having extensive meeting with vendors one by one and we have totally chalked out our plan and within the next three years we have got to bring down this import content but to the extent of maybe 8% to 9% of our material cost.

Rashi Talwar Okay so as per what details you had given in the last Q1 call you are fairly on track for your 1st October start and then I think 1st of April again. You are doing another round of cuts?

Ajay Seth No. It is sort of continuous process. Once we first have a meeting, we chalk out our plans and then depending on the roadmaps we keep on having intermediate meetings. So this is how we are going to move and as of now it is absolutely on course.

Rashi Talwar Okay. Sir, one more question from my side. In previous question you had mentioned your discounts remain high at about 13,500 per vehicle. Again here we were talking about blended discounts but having Swift and the other diesel cars come back online, shouldn't your average discount dropped in Q3?

Ajay Seth The average discounts will drop but just what I said more or less model wise it will still remain the same but because of increased availability of Swift average could come down.

Rashi Talwar Okay. Thank you.

Moderator Thank you. The next question is from Sanjay Doshi from Reliance Mutual Funds. Please go ahead.

Sanjay Doshi Sir, just wanted to get some clarification on the ForEx part. You have mentioned that we have started to hedge for the second half at the current rates which is slightly lower than what we had in the 2nd Quarter plus this 3rd Quarter we will have impact from the indirect compensation for vendors. So logically that should mean that yen will still be a negative impact for 3rd and 4th Quarter?

Ajay Seth In the 2nd Quarter whilst on the direct imports the rates were slightly better than the current rates at which we are hedging for the 3rd and 4th Quarter. We had a large impact on account of royalty as I mentioned to you almost 100 crores because of mark to market. So to that extent we will benefit and yes, there will be a component buying rates would be shade lower than the 2nd Quarter at more or less it is going to offset gains on one side and the losses on the other side.

Sanjay Doshi And what would be the indirect impacts on indirect compensation in terms of percentage of sales?

Ajay Seth Our indirect exposure is about 14% of net sales and that we have to give quarter compensation. It depend on the blended rate which the average for everyday and calculate. So we have to see exact impact whether it works out to and it will be certainly a large impact.

Sanjay Doshi And sir lastly, can you help us understand bit more on the inventory levels both at dealer and company given that festive season of almost over now?

Ajay Seth Given the fact that in the month of October we had constraint in supply, inventory has definitely come down. They have come down sharply actually. Let's say from the level of almost 4 to 5 weeks in a net worth, they come down to let's say 2-2.5, 2 to 3 weeks let's say.

Sanjay Doshi Okay for the entire system including the transit and dealer?

Ajay Seth You are right, total.

Sanjay Doshi Okay, thank you very much.

Moderator Thank you. The next question is from Saurabh Das from Sundaram Mutual Fund. Please go ahead.

Saurabh Das Hello everybody and thanks for the opportunity. My first question again pertains to your yen and yen hedging policies. If I look at the localization program for you, for instance this is not something which is new to us. We have been continuously trying to localize. If I look at your raw material imports to sales over the last five years. It has remained broadly static between 8% to 9%. Do you see that there has been a mark shift in the way we localize now previous compared to the last five years? Second that in the environment where new technology inputs into car platforms are continuously increasing. Do you see that there would be those one-of spikes wherein a new platform gets introduced and again we have stress targets going ahead?

Ajay Seth Normally in localization, there are two areas but the first area is in which we directly import from Suzuki Japan or these days we are also importing from elsewhere and the number two is what vendors are importing for themselves and then there are supplying to us for which we are giving compensation. So there are two areas and in both these areas the programs are going on and in fact there have been not much changes the way we approve our samples and the way the total programs goes on but only what happens is because our direct imports from Suzuki has been coming down. They are only at the level of about 5% to 6% of our buying so therefore there are not enough material law which we can really localize here. So therefore today we are really getting our big stress on whatever our vendors are importing and in that area there has been a very-very big push and this is where our earlier levels may be only about 1% of our material cost in the year. We are trying to up it to the extent of almost about 3% a year. So this is what is happening as far as the localization is concerned.

Saurabh Das And if you can give us the sense of the quantum of benefits which you and your vendors will see when this gets localized. For instance I vaguely remember 20 to 25% number at a different yen rate at some point. Is that benefits something like 40% to 50% today?

Mayank Pareek It's not really like that the numbers still remain around between 15% to 20% that is because as we are localizing more and more the technology areas are becoming more difficult. So when you have to bring in technology into our country the cost levels are much higher. So that is the reason we still remain at the number between 15% to 20%.

Saurabh Das And this will be shared between you and the vendor?

Mayank Pareek That is right. This will be shared between we and the vendors.

Saurabh Das And the three year program is between 15% to 9 %?

Mayank Pareek That is right.

Saurabh Das And this is to Ajay. Can you just give us that export revenue number which was asked sometime back?

Ajay Seth The export revenues are 886 crores in the 2nd Quarter.

Saurabh Das Thank you and all the very best.

Moderator Thank you. The next question is from Jinesh Gandhi from Motilal Oswal Securities Ltd. Please go ahead.

Jinesh Gandhi Good morning sir. My question is on a ForEx hedging. You have mention that you will be looking to hedge for second-half. Clearly the rates will be closer to 79-79.5. Would that be right way to look at it or you will be seeing better rates considering the premium which will be paying?

Ajay Seth I think that is virtually negligible premium. The rate should be closer to where the market is now and we would not be taking all the hedges for the six months in one go. We have taken significant hedges today for example but will bill position over the next one or two days. So we have to watch market not only today but next few days. But we should be close to where the market is now.

Jinesh Gandhi Okay this royalty mark to market which we have done, which has impact the 100 crores let us say for the first half and that mark to market couldn't happen at September end rate of about 76.50 to 77, right and we will be paying it in November so affectively does it mean that we will be re- mark to marketing to 79, if it is?

Ajay Seth Yeah, whatever is the actual gain or loss that happens when we make the actual payment. Then we have charged P&L will be written back to P&L.

Jinesh Gandhi Okay and second is, this commodity mark to market was 126 crores which you had indicated. That resides in other expenses or that is in raw material cost where it has been accounted for?

Ajay Seth That is part of the other expenses and it is not 126 crores. It is only 26 crores.

Jinesh Gandhi So these hedges are now fructified or they run in next quarter as well?

Ajay Seth Yeah, they will run in the 3rd as well as in the 4th Quarter.

Jinesh Gandhi Okay and you have also indicated that we won't be seeing any major savings on the commodity cost front despite commodity cost softening. Any reasons for that?

Ajay Seth That commodity cost whatever has been in the 2nd Quarter is going to remain more or less the same going forward as well in the 3rd and 4th Quarter.

Jinesh Gandhi Okay but you would have negotiated your steel contracts now and would be in the process of that. So aren't you getting better rates?

Mayank Pareek We are in the process of negotiating and in fact some of these foreign Japanese maker asking for a marginal increase and therefore our estimation is probably we will and up with the same rates as well as the first half.

Jinesh Gandhi Okay but on the other commodities like aluminum, rubber. Any savings on that account?

Mayank Pareek Rubber has marginally come down. Aluminum has been fluctuating up and down. So overall the average rate probably will remain more or less the same as that in the 2^{nd} Quarter.

Jinesh Gandhi Okay, got it. And lastly in terms of the Fiat diesel supply or diesel engines supply which have indicated by January 2012. Can you throw some more light on it, what's the number of engines you accept and would cost be very different from the cost which you pay to Suzuki Power Train?

Ajay Seth Right now we are on the discussions with them. So none of these things have been really sort of settled out and the numbers would of course depend on that's how much Fiat can really get because Fiat is needing for themselves. They are also supplying to other makers so therefore whatever at that point of time when you start taking whatever free capacity they have, they will be able to give us. So the numbers also have not been decided as yet and we are negotiating with them in the prices as well.

Jinesh Gandhi Okay and my last question is to Mr. Pareek, in terms of the demand at retail level. Are you seeing any trend in terms of particular markets which are doing well and also in terms of how demand doesn't urban areas versus rural areas?

Mayank Pareek See, broadly the stress point which I mentioned earlier, the interest rate and the fuel prices, we are all pervasive and across the country this thing has affected. However, relatively if you see the rural markets, the smaller markets are doing little better.

Jinesh Gandhi Okay, thanks and all the best.

Moderator Thank you. The next question is from Chirag Shah from Emkay Global. Please go ahead.

Chirag Shah Good morning everybody and thanks for the opportunity. Sir, just a follow-up question on the ForEx on the Yen side. You have indicated that you are looking at hedging yourself for dollars at 79.2. How would the rupee like behave for you because the rupee at 45 and rupee at 49 would make a lot of difference for you in finally cross currency rates?

Ajay Seth So the P&L is not only dollar yen but also dollar rupee being net importers. So to the extent that we have natural hedge we are fine but to the extent of excess rupee import exposure we will have to really plat by the year because there is no point hedging dollar-rupee with the kind of premium that you will have to pay moving forward. So we are keeping that leg open. When we did our mark to market dollar rupee was over 49. So we are shade better than where we were earlier. Some large chunk of payment is going to happen towards the end of November which is on account of royalty. So rupee remain where it is then we are okay but if rupee was to move up from here and depreciate further than I think, that pain would indicate all the benefits that we are getting on dollar yen.

Chirag Shah Okay. Also a second thing I wanted, raw material side, your first half average cross currency rate directly JPY to rupee would be how much because you can give us separate legs? It would be helpful.

Ajay Seth Chirag, I do not have those specific details here. I will give it to you separately.

Chirag Shah Okay and broadly if you can indicate assuming it at 79.2 versus 81. How adverse you would be on the rupee side for a raw material imports visa-a-vie one half for second quarter?

Ajay Seth So we would have average at about 46.50 on rupee on imports 2nd Quarter and we would be at about 48.50 now.

Chirag Shah Fair enough. And sir, second thing as you new plant has been commissioned and what is the kind of increase in fixed cost you have seen over there? Excluding depreciation what is the kind of increase in cash fixed cost? If you can just share some light over it, would be helpful because of all these unfortunate events that have happened how much that in fact is lying in your P&L?

Ajay Seth See, unfortunately side continued in October also. Full impact of that would not be visible till September, part of this is going to come in this quarter as well. So partially you will see the impact in September. It would be about 6 odd crores that is built-in the 2nd Quarter but some impact of this is going to come in the 3rd Quarter.

Chirag Shah And there were largely running of the plans basically that we are required to do. There were no damages that no major cost on any refurbishment on any repairs that kind of thing. Even in the October in the 3rd Quarter you will be free. Is it right to look at like that?

Ajay Seth That is right.

Chirag Shah And last thing that if I can just take one more, can you just share what is your current capacity of Swift and Dzire in terms of assemblies and especially in the diesel side and how you are going to ramp them up and the ramp up plan for these two particular products?

Rahul Bharti Chirag, last year we have making Swift at the rate of around 10,000 to 12,000 per month and with this increase in capacity and line shifting etc. what manufacturing people have done, we expect to go up to 16,000 to 18,000 vehicles per month.

Chirag Shah This is for Swift?

Rahul Bharti Yeah.

Chirag Shah And Dzire combine and how it would be for Dzire?

Rahul Bharti Dzire we were making around 7000 to 8000 last year per month and we expect it to go to 10,000 per month.

Chirag Shah And further ramp up over there?

Rahul Bharti Now it will depend on basically supply of diesel. We are trying to augment the diesel supply. Currently the diesel engines capacity is around 20,000 liters per month. We expect it to go to

25,000 liters per month in January. So that will be chunk and this will be distributed among four diesel models which we have namely Swift Dzire, Ritz and SX4.

Chirag Shah Okay so there would still be problem of waiting list for your key models would persist for at least say next six months kind of thing?

Rahul Bharti Yeah, actually waiting period is function of naturally what we supply and what fresh bookings we get. If the booking remains at the current level then we will have around five months waiting period and if the inflow is higher than that then the waiting period naturally goes up.

Chirag Shah Fair enough. And just one thing on this 2 to 3 weeks inventory, you have indicated this across models or certain models have a higher inventory for you? Just a follow-up, you have indicated that your inventory levels have come down for you to 2 to 3 weeks. Is it across models or there are some models which have much lower inventory and some models which have a higher inventory, where there is no change in the inventory levels?

Rahul Bharti Yeah, we have 14 brands, naturally this is an average but Swift which is in waiting period inventory will be nothing. This is an average.

Chirag Shah Fair enough sir. Thank you very much.

Moderator Thank you. The next question is from Abhijeet Naik from CLSA. Please go ahead.

Abhijeet Naik Hi, I have two questions. The first is on capacity. Now that the strike is over, what can be the maximum production levels at Gurgaon, Manesar combined in second half. Essentially when I'm coming from is that post the strikes, is it so that the Manesar plant will run at lower productivity level than before the strike? Can you just help on that?

KD Singh Yeah, this Kamaldeep here. Posts strike operations in Manesar are normal in terms of the industrial relations climate but we ramping up production slowly. We're ramping up production at the Manesar plant as well as the diesel engine plant SPIL which is the Suzuki subsidiary. But we expect that by the end of this quarter we will be able to reach normal levels of production at Manesar.

Abhijeet Naik Okay, so you are saying that even say November and part of December you won't still reach the pre-strike levels of combine production. It will take a bit of time?

KD Singh Yeah, it will take a while.

Abhijeet Naik But January onwards we can expect about 110,000, whatever you are doing per month on combine basis 120,000 that too come to that level by January?

KD Singh That is right.

Abhijeet Naik Is, the Manesar three extensions for October 2012 on schedule?

KD Singh We have said 2012-13, so that is pretty much on schedule 2012-13.

Abhijeet Naik So next October Manesar capacity will go up by further 250,000 units?

KD Singh It wouldn't be October exactly. It will be during the fiscal and by the end of the fiscal I think we can expect the capacity to be on stream.

Abhijeet Naik Okay so more towards the end of FY13 that I will say the middle part?

KD Singh That is right.

Abhijeet Naik Okay, my second question is on your new product launches. We know that the Ertiga as call it is coming in January. Can you tell us anything on the launches that will happen in calendar year 2012 beyond to the Ertiga, either in terms of the number of vehicle launches or if there is anything whatever you can disclose on that front?

Rahul Bharti Thank you Abhijeet were telling me that Ertiga, even I do not know now we have also read this thing. I think, let's just talk about what we have, we have a very healthy and substantial portfolio now and as a company we have announced that every year we will launch one new model. We will stick with that as of now and as and when we launch, we will definitely get in touch with you.

Abhijeet Naik Okay so it is just the **stated strategy 40.03** is one and the new product launch not a variant and not an upgraded new product launch once every year so that continues for the next year?

Rahul Bharti And we are doing more than that actually every time.

Abhijeet Naik But you would not be able to disclose anything more than specific on next year?

Rahul Bharti Actually on a serious note to sustained leadership it is imperative that the much launch models continuously in all the segments and also create some new segments, so that we will continue to do actually needless to mention that, more than that we really cannot go into specifics of what and when that you must leave it for sometime in future.

Abhijeet Naik Okay if I can just squeeze in one more question, strike is over but is this truce between management and workers for real and what has been done to prevent another strike from happening in the future?

Mayank Pareek If you notice the nature of the agreement there are a lot of initiatives in the agreement that aim at long-term solutions to these issues between the management and workers, so while it is really difficult to make predictions about the future I think the spirit in which the workers and management have approached the issue this time is positive and constructive, for example there is a Grievance redressal committee which means that issues that workers might face can be communicated easily and swiftly to the management. Similarly there is our labor welfare committee and these committees come with a legal backing they have a statutory backing and these are serious effects I think on both the sides, not to repeat the mistakes of the past and move on in a positive frame of mind.

Abhijeet Naik Okay that is all for myself thanks.

Moderator Thank you. The next question is from Jamshed Dadabhoy from Citigroup, please go ahead.

Jamshed Dadabhoy Thanks for the opportunity. A couple of questions from my side as rural India becomes a higher proportion of the sales how does that impact your model mix, that is my first question? Is there a negative impact or do you see the off take of even Swift and Swift Dzire is as rapid in rural India as it is in urban India that is my first question?

Rahul Bharti Actually last three years we have seen that our strategy for world market has started giving dividends and what we discovered is that even the new markets and customer profile is very much similar to what is there in the urban market, product mix is not really very different they do definitely buy Swifts and Dzires, that is the answers to your question. And the way to the market them is different but the product aspirations are not different.

Jamshed Dadabhoy Okay so there is no meaningful mix shift on because of the increase in the rural India?

Rahul Bharti You're right.

Jamshed Dadabhoy My second question is that you have highlighted the fact that your product strategy, etc., is a positive in going ahead but as of now could you give us a sense on a model vice perspective which are the models where the discounts as a percent of ASP are higher than the competing models and where are the models where you have a strong brand equity for where the discounts are lower?

Ajay Seth I think very interesting question if you compare to market like to like in all the segment wise comparison all our products discount is less than what is offered by the competitors, however, if you ask me which model it is higher in absolute ways, entry level yes there is a big stress in the entry-level cars so, there the discounts are relatively higher and naturally Swift and Dzire and diesel portfolio there is no discount.

Jamshed Dadabhoy So what is I may just follow up, what is diesel as a proportion of your sales for the first quarter and the second quarter?

Ajay Seth I think our total it is around 22%.

Jamshed Dadabhoy Okay. Thank you very much.

Moderator Thank you. The next question is from Srinivas Rao from Deutsche Bank, please go ahead.

Srinivas Rao I would first like to check with you on your net sales as a proportion of your if I look at the per car in sales per car that number is actually higher on a quarter-on-to quarter basis compared to the let us say first-quarter given that your discounts have increased this quarter on a per car basis and the mix was potentially inferior, how was the net sales numbers higher or net sales per car, that would be my first question. The second question is on your royalty exactly how do you account for that, when do you pay I mean using which yen rate, is it an average for the quarter or a quarter end rate that would be helpful and finally this Fiat diesel engine if you were to look at is I imagine the engine configuration is slightly different in Swift as compared to what they currently manufactured is that something to think about it, I know that the basic engine is the same and the technology product was Fiat Power Train, so if you could help on these three questions?

Ajay Seth For the first question was the realization in this quarter was higher compared to last year same quarter, the reason for that is that the mix has changed it is not inferior, in fact the mix has changed in favor of diesel vehicles and therefore the realization has also improved accordingly because the diesel realization is better than the realization of petrol so that is a broad reason of change in the realization. Your second question was on royalty, royalty provision is made every month based on the actual sales and it is computed based on the sales for that particular month that is provided in the books, every quarter the royalty is then mark-to-market based on whatever the exchange rate is and it is paid twice in a year, it is paid half yearly which is paid in the month of May which will be for the accumulation for the period October to March and it is paid in the month of November for the accumulation for the period April to September.

Srinivas Rao And the rates at which you would hedge that would obviously depend upon any rate which you feel would be comfortable doing that period.

Ajay Sth That is right.

Srinivas Rao So the Fiat engine?

Maitra As far as the diesel engine which shade Fiat makes there are few competent which are different between the Fiat engine and our engine and we are going to supply these components to Fiat and they would be doing the assembly with those components, so that is what is the total plan.

Srinivas Rao Last question on the market you have mentioned that it is a weak market but at least it looks more like a polarized market where you have one lakh Swift booking waiting period as in weak entry-level market and exactly what is happening, it does not sound like a weak market to be honest on an overall basis or we are getting it wrong?

Rahul Bharti I think you have to see the market in the right perspective there is a big skew in the favor of diesel and about a year and a half or two years back, the gap between the diesel and the petrol fuel price was about Rs. 10 now it has become 25 so naturally large number of customers are opting to buy a diesel vehicles as a result , you are very right in saying that in some product to the demand looks very robust others it is not and if you further analyze you will see the diesel products there is a big surge and petrol there is not and I think a short while ago I had mentioned out of more than 110 products which ply on the Indian roads, in the first six months pure petrol models only 4 petrol models have shown growth out of that 3 are from Maruti only Eco, Gypsy and one is Santro, all other pure petrol models have declined then that means yes, diesel is in demand. You mentioned Swift, Swift we have 100,000 bookings but out of that almost 85 to 88% are bookings for diesel. Diesel is in demand but petrol is an issue.

Srinivas Rao Finally one last question I mean you've talked about the impact on the account of yen at the various places, the P&L and just quantify the cash impact, excluding the mark-to-market excluding the quadrant rate thus on account of cash, what could be the cash flow impact if I may say of just in rise of FX?

Ajay Seth So therefore I said that the large impact is on account of mark to market and in the second quarter largely there were covers for the imports and also the export realization was better compared to the first quarter so there would be not any significant cash impact on account of either inflows or outflows the net off in the real sense. The only effect is largely on account of mark-to-market more on commodities and on account of royalty.

Srinivas Rao Okay so in the sense that if I were to let us say restate your accounts for this quarter excluding in the MTM which number you have given obviously the margins would be almost 250 basis points higher broadly?

Ajay Seth Not 250 basis points higher than the impact of mark-to-market is about 127 crores royalty and commodities put together which is about 1.5% of slightly over 1.5% it is about 175 basis points impact that will happen because of that.

Srinivas Rao Fair enough, thank you so much.

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

Rashi Talwar Yes just one quick question on the competition as we've seen news reports and that both Honda and Tyota are having component shortages thanks to the floods in Thailand, are you all seen any impact on this on their smaller launches which have happened more recently, I mean I am assuming this will take a little time because the floods are more recent and there will be some pipeline but what is your hearing?

Maitra As far as our buying from Thailand is concerned it is very-very little just about 0.2% of our total buying and as of today whatever information that we have, it is from the Tier-1 suppliers which are just about seven in number and one of them is a little effected but then they have stocks till December and within that we are developing an alternate source but we are investigating on the Tier-2 suppliers there might be some of the Tier-2 suppliers that there might be problems which we are right now investigating.

Rashi Talwar No, I'm aware that I guess you had already taken out a release saying that you have very limited imports from Thailand I was questioning more of the competition specifically both Honda and Tyota who have a significant imports from Thailand and have launched their new cars, are you all saying any feedback from your dealers or from the marketing department that they are not able to get their supplies, just what you are all seeing?

Maitra I think in all fairness they should be asked to Toyota and Honda not us but from a market side we have not got any feeling that there is any shortage of their vehicles.

Rashi Talwar Thanks.

Moderator Thank you. The next question is from Pramod Amte from RBS Equities, please go ahead.

Pramod Amte This is with regards to again the workers strike related issues, one there have been a lot of press articles about the work practices of Maruti would you like to take this opportunity and give a clarification on the same?

Rahul Bharti Do you have any specific work practices in mind when you mentioned this?

Pramod Amte No the press article suggested about the time gaps given to the workers and the wage cuts made and all so that raised a lot of fingers about work practices, so would you give some clarification and how that will be rectified going forward?

Rahul Bharti Okay very quickly I think at times like these a lot of heat is generated and some of the facts tends to get mixed up with the myth. However, to give a quick clarification to this I think one, we have been doing these practices in Gurgaon for almost 30 years now and the practices are identical at both facilities so it is probably also got to do with communicating with this section of workers at Manesar, clarifying the position of the management bringing people on board and so and so forth. So, fundamentally we see that there is nothing wrong with the practices, it is just that the way we have gone about them or the way we have communicated them probably we could do a better job of perfect from here on, so that is part one. Part two is that I as I've mentioned earlier that we now have forums where if there are issues of this nature or of any other nature they can be constructively resolve between the workers and the management. So fundamentally I think the practices are fine and they have been on for a long time and they've probably is misunderstanding or misrepresentation but now the position is that they can be resolved amicably. I hope that answers your question.

Pramod Amte And related to that only considering the amount of contract labor's which you have employed and also the if we have to accommodate these new requests, what is the medium term repercussions in terms of permanent workers versus contract and the financial implications for the same on your employee cost as a proportion of net sales?

Rahul Bharti At the moment the way we are looking at the contract workers systems we do not see any major implications in terms of wage cost but if there are some development of that nature we will of course keep you informed. But it is more about streamlining processes, it is probably about strengthening the monitoring system. I think it is more of issues of that nature rather than a significant increase in the wage cost.

Pramod Amte And I have a question for Mayank, would you be able to give us for the industry as a whole how the petrol cars what is the extent of degrowth of petrol cars versus the growth in the diesel cars in the industry?

Mayank Pareek I think before that I must make a disclaimer that this number is not shared officially by the manufacturers what we collect from industry sources that I have mentioned. In the first six month petrol market has declined by 11% and diesel has grown by 24%.

Pramod Amte Just to take the earlier question the response for new products even on the petrol has been very encouraging for an example of what Honda brought out or even Hyundai brought out, so just to take it from earlier Shrini's question how to read the market where the new product response or the refresh responses have been phenomenal where as the existing products continued to go on a huge discounts?

Mayank Pareek I think every interesting question you have asked these products which you mentioned were launched one or two of months, one of them came on 13th of October as we are just two weeks after that and one other came in the month of September, so actually saying that the response is very encouraging at this stage may not be right thing to say because what actually retails and there is a pipeline which gets filled, so we have to really wait before passing the judgment actually. But if internally if you know and if you see the market sentiments even on the new products there is a big discount, off course they show growth because there is no base but as soon as base gets corrected there is a problem, in fact I generally do not mention the product name but I mentioned because I think one of the quarters it was asked that Figo is doing so well but as soon as their base was corrected their launch came in 8th March, 2010, they launched and March 11 onwards they are showing a degrowth as soon as this corrected there is a degrowth. So initial response the conjecture at best.

Pramod Amte Thanks a lot and all the best.

Moderator Thank you. Ladies and gentlemen due to time constraints we will take one last question from Vaishali Jaju from Aegon Religare Life, please go ahead.

Vaishali Jaju Good morning everyone most of the questions have been answered, there is one strategy question on your diesel vehicles as we are outsourcing the diesel engine and there will be a going forward also more of demand of diesel engines take the time APM goes off from India so is there any long-term strategy where you are planning in your R&D efforts to have your own diesel engine in future?

Mayank Pareek I think a very interesting question you have asked in fact as I said earlier that basic shift we have seen from petrol to diesel has occurred because there is a price differential that has increased between diesel and petrol it used to be around Rs. 10 per liter and now it has increased to Rs. 25 plus. Now we as a manufacture would rarely meet how this in future it will change will depend upon what are the policies of the government regarding fuel pricing if that is clear I can answer your questions. Because the whole shifting whether it is a permanent, we keep hearing that the government can levy some sort of excise, on some sort of tax on diesel vehicles or differential tax on diesel is something that all that happens then the whole demand pattern can change again. So at this moment we really seek some sort of clarification which states the long-term government policy which enables us to make the right investments.

Vaishali Jaju But as of now we have not started anything R&D effort on the diesel engine side, right?

Mayank Pareek No, what I said two efforts which we have done one we will augment our capacity from 20,000 per month diesel engines to 25,000 which itself is 25%.

Vaishali Jaju I'm talking more on the RND side?

Mayank Pareek R&D is a very long-term commitment and in the absence on any clarity on diesel initially which I said I think it will not be prudent at this point in time to put your mind behind a particular type of fuel, so as soon as the policy comes the naturally go ahead with in the right direction.

Vaishali Jaju That is all from my side, thank you.

Moderator Thank you. Ladies and gentlemen that was the last question I would like to now hand over the conference back to Mr. Amit Kasat, for closing comments.

Amit Kasat Thanks Marina. On behalf of all Standard Chartered Securities Ltd. I would like to thank the senior management team of Maruti Suzuki India Ltd. for taking this time out for the call and patiently answering all the queries. I would also like to thank all the participants for being the on the call. Thanks everyone.

Mayank Pareek Thank you very much.

Moderator On behalf of Standard Chartered Securities India Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect you lines. Thank you.