



“Maruti Suzuki India Ltd Q2FY13 Earnings Conference Call”

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**MANAGEMENT: MR. AJAY SETH – CHIEF FINANCIAL OFFICER, MARUTI SUZUKI.
MR. RAHUL BHARTI – GENERAL MANAGER, CORPORATE PLANNING.**

Moderator Ladies and gentlemen, thank you for standing by and welcome to the Q2 FY13 Earnings Conference Call of Maruti Suzuki India Limited. At this time all participants are in the listen-only mode. The call will commence with a brief from the management of Maruti followed by a question and answer session. Should you need assistance during this conference call, please signal an operator by pressing * followed by 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference over to Mr. Aniket Mhatre from Standard Chartered Equities Team. Thank you and over to you sir.

Aniket Mhatre Thank you Shyama. Good afternoon to all of you. On behalf of Standard Chartered Equities Team I would welcome all of you to the Q2FY13 results conference call of Maruti Suzuki India Limited and also take the opportunity to welcome to the senior management team of Maruti. I would now hand over the call to Rahul Bharti who will take it over from here. Over to you sir.

Rahul Bharti Thank you Aniket. Ladies and gentlemen good afternoon once again. I understand our results have been released only recently so for your convenience I will read out the results released again. The company registered net sales, net of excise of Rs. 80,701 million an increase of 8.5% over the same period in the previous year. Net profit during the quarter stood at Rs. 2275 million a drop of 5.4%. The growth in net sales was on account of sales of new model Ertiga and enhanced export realizations. The market showed a marked preference for diesel cars while demand for petrol vehicles dropped sharply. Despite scaling our production of diesel cars the company has a customer wait-list of nearly 1.2 lakhs for its diesel vehicles. To counter subdued demand for petrol cars, the company enhanced sales promotion measures that also impacted profitability. The bottom line has also been impacted by lower non-operating income during the quarter, while EBITDA has grown 15.4% over the second quarter of last year, higher depreciation which reflects a growth of 30.4% also reduced profits. The company continues to focus on component localization and reduction in cost and overheads. During the quarter the company sold 209,954 units in the domestic market compared to 222,406 units the same period previous year. The company also exported 20,422 units against 29,901 units in the previous year. This was part of the press release that we issued sometime recently. Now coming back to the conference call we will begin with the brief statement on the performance and outlook of our business by our CFO – Mr. Ajay Seth after which we will be happy to receive your questions. May I remind of the safe harbor? We may be making some forward looking statements. They have to be understood in conjunction with the uncertainty and the risk that the company faces. I may also like to inform you that the call is being recorded and the transcript will be available at our website. I would now like to invite our CFO, Mr. Seth. Over to you sir.

Ajay Seth Thank you Rahul. Good afternoon ladies and gentlemen. My apologies for rescheduling this call. You would have seen financial results for the second quarter in the first half of the year. This quarter was an unusual quarter in the history of the company. There was a background of challenging macroeconomic situation and weak market sentiments in the country. Owing to a

huge distortion in the prices of petrol and diesel, the industry petrol car sales continue to post de-growth of 20% while industry diesel car sales grew at 40%. Higher petrol prices, interest rates and inflation impacted the cost sensitivity, sensitive entry car segment and the company had to sustain momentum with the help of high sales promotion. The government has corrected the difference in fuel prices to some extent and we welcome the response. However the distortion is still high and is yet to create any visible change in the demand pattern and so more correction needs to be done. The company had an unfortunate incident of large scale labor violence at our Manesar plant in July and was forced to lockout the plant for almost a month to ensure the safety of our employees. The company has resumed operations and is very close to full production of about 1600 cars a day. At the Manesar facility we are making fresh efforts to establish a very positive and friendly environment at their plant location. In spite of the tough challenge of producing vehicles after the Manesar incident the company brought the sales of the first half of the year at par with that of the same period of the previous year. The Ertiga has turned out to be a very popular model both in India and abroad. While we have strong demand in India, we are also exporting kits of the Ertiga to Thailand and Indonesia. In our cost an adverse foreign exchange movement continues to be a cause of concern. The swing in currency severely impacts both direct and indirect exposure. The gains on the export offsets some of the negative impact but only to a limited extent. The already provision came down in the second quarter owing to a reduction in the Yen-Rupee rate with respect to the first quarter. The benefit of softening of global commodity prices did not come through due to sharp depreciation of the rupee against the US dollar. The company tried to offset these pressures by reducing overhead expenditure, focused cost reduction efforts and calibrated price increases. With this the company in the quarter registered net sales of Rs. 8701 million – a growth of 8.5% over second quarter last year. The net profit after tax stood at Rs. 2275 million – a decline of 5.4% over the same period last year. I will come to an outlook for the second half for this financial.

The company recently launched a new Alto 800 and received more than 30,000 bookings in a short span. This customer response is very encouraging for us. The demand environment has improved due to the festive season. Our diesel car production is going up after the ramp-up in Manesar production. We are producing diesel engines even during the Manesar car assembly plant lockout. The inventory will now help us to serve our customers waiting for diesel cars fast. The external environment has changed slightly positive, the recent government initiatives have improved the general business sentiments in stock markets. While uncertainty on the FOREX remains, any significant benefit on the commodity prices looks unlikely. I would now like to invite any questions, feedback or comment that you may have. Thank you.

Moderator

Thank you very much. Participants we will now begin with the question and answer session. We have the first question from the line of Pramod Kumar from IDFC Securities, please go ahead.

- Pramod Kumar** My first question pertains to the New Alto. I just wanted to understand as the car went into production and dispatch has started in September, have we paid a one-time lump sum model fee to Suzuki to this new car?
- Rahul Bharti** No lump sum provision has been made for the new Alto so far.
- Pramod Kumar** So it will come in Q3 is it?
- Rahul Bharti** That is right.
- Pramod Kumar** And what would be your guidance on the royalty for Alto going forward, because in the earlier frame it was a 10-year-old car and with I think one of the lowest royalty rates within portfolio. So how would that in that sense be in trend going forward?
- Rahul Bharti** I think we have said that the royalty would pretty much remain in the vicinity of 5.5% to 6% in that combined mixed bag of base products that we are selling. The only variation is normally because of exchange rate. As you would have noticed in this quarter, just because exchange rate in September, towards the end of September was better than the closing ahead of June, the royalty as a percentage came down to 5.4. So I think it will remain in that band of 5.5 to 6% and all the products we are selling would together have that sort of impact on royalty as a percentage net sales.
- Pramod Kumar** Okay. Fair enough. On wait settlement is the retrospective effect for first quarter already included in the second quarter number?
- Rahul Bharti** No, requisite provision was made in the first quarter as well. There was some carryover which was a small amount, so that would be taken care of in this quarter but requisite provision was made in the first quarter.
- Pramod Kumar** And sir finally on the diesel volumes for the quarter sir.
- Ajay Seth** We sold about 70,000 diesel cars in Q2.
- Pramod Kumar** And versus 1Q and 2Q last year?
- Ajay Seth** In Q1 we were 100,000. Last quarter we will have to check. I will give you that number in a while.
- Moderator** We have the next question from the line of Binay Singh from Morgan Stanley, please go ahead.
- Binay Singh** Two questions firstly, could you comment a bit on the broader trend that you are seeing in the environment in terms of footfalls, conversion ratios, specifically on a YoY basis are you seeing any improvement more so on the petrol portfolio also? And second question is on your

FOREX hedging strategy there are two legs to the strategy, one is localization and the other is exports. On the exports bit could you throw a bit light as to what is something, what is it that we are going to go different going ahead? Are we going to start exporting more products or are we going to enter more countries? So what is going to drive that exports?

Ajay Seth We are definitely seeing some buoyancy in the festive demand and the first few festivals like Onam in the South, Ganesh Chaturthi in the West and Navratri in the North has been quite good for our sales and we hope this momentum continues.

Binay Singh But is this buoyancy being seen on a YoY basis you have seen an improvement because seasonality is favorable?

Rahul Bharti On a YoY basis also we are seeing inventories.

Binay Singh Even in petrol cars?

Rahul Bharti Not petrol, this is overall petrol as Mr. Seth mentioned earlier the whole industry shrank by about 20% in this period and while diesel saw an increase of 40%, so the distortion continues.

Binay Singh So there is no improvement on the petrol side on a YoY basis, even in terms of conversion ratios or footfalls.

Rahul Bharti Yeah, but generally in the festive season what we have observed and the past is that the small entry level petrol car sales also go up. It is a time for mass consumption so the ratio gets slightly healthy during this time.

Binay Singh Right. That is what you are seeing as of now.

Ajay Seth On your other question on FOREX there are two legs to it, one is the direct imports and the second is the indirect imports. On the direct imports the Dollar-Yen is to the extent of, for the remaining part of the year it is to the extent of 1/3rd and it is what we have hedged and balance exposure would be open at this point in time. So we are waiting for Yen because Yen is corrected off-late so we started now taking more covers for the remaining part of the year. On Dollar-Rupee for the direct exposure we are naturally hedged, so we are not taking any covers. Indirect exposure is the area of concern where we had taken some covers in the past but they are on Dollar-Rupee we are going slow at this point of time because given the volatility of Rupee we will wait and watch. Other than that I think we are more or less covered on the other areas as I mentioned to you. On the export strategy our ultimate ambition is to be at 15% of our net sales. So how do we achieve it? Both, the two points that we mentioned. One is that we have focus on more countries so we are working on that to have more presence in different countries and also penetrate African more and second is to bring in more products in different markets. So both the strategies have worked, hand in hand in terms of making sure that moving forward we achieve the target of 15%.

- Binay Singh** Alright, and sir when you are approaching more countries, this is again through Suzuki dealerships, so Suzuki is already present in those countries and you will incrementally be launching products over there.
- Rahul Bharti** Not necessarily, there are some markets where they are present, but there are some markets where they are not present. For example, in Africa most of the markets they would not be present. So we are making inroads to our distributors. So it is a mixed bag.
- Binay Singh** Thanks a lot.
- Moderator** We have the next question from the line of Kapil Singh from Nomura, please go ahead.
- Kapil Singh** Couple of questions. Firstly on the diesel capacity is there any plan to bring the diesel engine capacity forward from the earlier stated plans?
- Rahul Bharti** It continues to be the same plan that we spoke earlier. September 2013 will be the phase-I and June 2014 will be phase-II. This is the shortest time in which we can install the requisite capacity.
- Kapil Singh** Okay. And sir secondly on the royalty expense do you see it dropping from 5.95% to 5.4%? So just wanted to check is there any right back related to Q1 here as well?
- Rahul Bharti** As I mentioned that Q1 provision was made a particular exchange rate and the combined provision for Q1 and Q2 is lower because the exchange rate was favorable as of end of September. So to that extent quarter on **15.34 quantity** which was over-stated, not being correctly stated based on the current exchange rate.
- Kapil Singh** Is it possible to quantify that, how much was the overstatement?
- Rahul Bharti** The amount was about 38 crores.
- Kapil Singh** Okay. So that has to be returned back in Q2?
- Rahul Bharti** That is right.
- Kapil Singh** That is helpful.
- Moderator** We have the next question from the line of Jinesh Gandhi from Motilal Oswal Securities, please go ahead.
- Jinesh Gandhi** I have a couple of questions. First question pertains to this reversal of provisioning for HSIDC claim of 235 crores. Can you clarify where it would be reversed? Is it through P&L or directly we have done it in balance sheet?

- Rahul Bharti** I thought we have adequately mentioned that in the note but this is a demand for the land compensation that HSIDC has raised on us. So initially the amount was capitalized as part of the land cost. But now since we are contesting this demand and the matter is pending in the Supreme Court, so we have reversed this provision of 235 crores which we had capitalized earlier.
- Jinesh Gandhi** Okay. So there is no impact of it in P&L in 2Q?
- Rahul Bharti** No.
- Jinesh Gandhi** And sir secondly with respect to your conversion of temporary workers to permanent, what is the status at Manesar and when will be taking it off at Gurgaon?
- Ajay Seth** Conversion of contract workers to company temporary workers is almost complete at Manesar. Gurgaon will take a while. We currently focused on Manesar, recruitment of temporary workers and regular employees here.
- Jinesh Gandhi** Okay. And at Manesar we are now fully staffed?
- Ajay Seth** Yes, almost. As per as the company temporary are concerned we have almost completed that we planned. It is the regular employees that we will now be recruiting from here on.
- Jinesh Gandhi** Okay. And sir lastly with respect to discounts, can you give number for the discount in the quarter?
- Rahul Bharti** Discounts in this quarter were at 14,750 average per vehicle, which is compared to 12,600 in Q2 of last year and 11,646 in Q1 of this year.
- Moderator** We have the next question from the line of Mahantesh Sabarat from Fortune Equity, please go ahead.
- Mahantesh Sabarat** Sir this is a question again on that Haryana land, demand of 500 crores. Assuming that you would lose the case, is that the entire amount 500 crores liable to be paid or we have paid some portion of that 500 crores?
- Ajay Seth** We have not paid any demands so far. Now the basic question is the total cost of the land was 100 crores and the compensation which is being sought is five times the cost of the land. And so this whole matter therefore is all filed up at, HSIDC has filed a petition and we are party to you the petition. So the matter is going to be I think discussed in the next hearing which is in November sometime and in case the court decides that this amount is payable then the amount will have to be paid by us but that is subject what decision court takes.

- Mahantesh Sabarat** Does this mean that your case in the High Court has already been lost by the Haryana Government for the increased demand from the land owner and hence you are already liable as per the High Court judgment and now that you are contesting it in the Supreme Court?
- Rahul Bharti** No, this case was between HSIDC and the High Court so that is where they have received an adverse judgment, you are right. Against which HSIDC has gone and filed a petition on the Supreme Court where we are also party to the petition.
- Mahantesh Sabarat** And you have recognized this as a contingent liability?
- Rahul Bharti** That is right.
- Mahantesh Sabarat** Sir one more question your other expenses have sharply fallen in terms, you have given a part explanation in your result release saying that advertising expenses are lower and are there any reversal of previous provisions or expenses?
- Rahul Bharti** No, overall I think the spend was less so there is no reversal.
- Mahantesh Sabarat** Because the spend is unusually low. The other expense spend is sharply lower.
- Rahul Bharti** So is the volume, so therefore we have kind of also look at controlling and no where else in this quarter has given a situation we were in.
- Mahantesh Sabarat** So do we take it that these other expenses as a proportion to revenues will fall back to the long term trend that we have seen in the prior quarters and this is aberration. The current quarter number is an aberration.
- Rahul Bharti** To some extent yes, but I think it will be more fairer to see a half-year picture rather than seeing a quarter's picture.
- Moderator** We have the next question from the line of Sahil Kedia from Barclays, please go ahead.
- Sahil Kedia** Would you be able to share with us the export revenue for the quarter please?
- Rahul Bharti** 824 crores.
- Sahil Kedia** Also sir, just regarding the new Alto that has been launched, we noticed that the prices have been broadly maintained, in some cases they are lower marginally, while the value addition on the products is significantly high. Just wanted to kind of understand would it be fair to say that profitability on these products would be lower than the outgoing model? And how would you think about operating going forward because Alto is pretty large chunk of your volumes?
- Ajay Seth** No profitability again, see we have always said it is a blend of products that we sell, models that we sell. So it is not linked to one particular product. There will always be entry level

price, etc.. that we will have. But we do keep in mind profitability whenever we are launching a new product or when it goes to the stage of approvals. So profitability should not be looked as isolation, again I am saying. It should be looked at as a blended margin that we get in all the products that we sell. Some will give us lower profitability, some will give us better profitability, some will give us zero profitability also. Again, I cannot answer your question on how Alto's profitability will pan out but I think what is important for you to look at is what is the blended profitability?

Sahil Kedia Sir if we put the question in another way, would it be fair to say that is the profitability going to be maintained on higher with the new Alto coming in?

Ajay Seth So I cannot answer that question for a simple reason that we do not disclose profitability for a model or a product. All I am saying is that you should look at what are blended profitability. If that is deteriorating then there is a cause of concern.

Sahil Kedia Couple of more questions if I may? Firstly can you comment a bit on the inventory levels right now on the petrol side? Diesel we still understand is running on waiting. So if you can just comment about the inventory levels on the petrol side and are you happy with the levels right now and lastly at the recent price increase?

Mayank Parikh Let me take the first question first. With inventory we are in the midst of the festival season and the first festival Navratri has been really good for us. So currently inventory level in petrol will be around 3 weeks, 2 to 3 weeks depending on the place and model. And of course diesel, there is no inventory.

Sahil Kedia Sir is this 2-3 weeks typically lower or is it normally a kind of inventory that you have during this time of the festive season?

Rahul Bharti Yeah, this is normal in the festival season. It has gone to as high as 4 to 6 weeks, six months back, now it is contained. 2 to 3 weeks is a good inventory.

Sahil Kedia Okay. And sir lastly if you can just comment about the price increases that we have taken.

Ajay Seth We had a price increase in October so that I think their impact would be seen in the third and the fourth quarter. So overall I think the average price increase was under 1%. So that I think impact would be visible in the third and the fourth quarters.

Moderator We have the next question from the line of Shrinivas Rao from Deutsche Bank, please go ahead.

Shrinivas Rao Just 2-3 questions. Mr. Parikh, could you throw some light on the relative strength or weakness of demand between how you define your urban and rural or may be the top 15 cities versus the rest of the country.

- Mayank Parikh** I think big difference between growth in rural as well as smaller market, for example, in the first half where our total sales has been more or less flat, rural markets has grown by around 20%. So that has been actually a good growth for us. And now total rural market accounts for around 27-28% of our sales.
- Shrinivas Rao** And sir you would define the rural as beyond the top-100 cities, is that correct?
- Mayank Parikh** Yeah beyond top 150 cities actually, these are real rural we are talking about.
- Shrinivas Rao** Any regional differences or it is similar?
- Mayank Parikh** No rural is across the country strength. No difference.
- Shrinivas Rao** And on discounts, I mean are you seeing any trend of falling discounts as we go into the third quarter? And your new Alto is at the pricing way at the level of the older Alto. I am assuming there are no discount there any which way right now that?
- Mayank Parikh** See Alto and new Alto we have got very good response from the customers, almost 30,000 bookings and we do not have any discounts on new Alto. That is the big difference between the old Alto and the new Alto. Discount level as of now in the festival season is around same level as what it was in the last year festive season around 5% to 6% more than last year festival season.
- Shrinivas Rao** Fair enough sir. And finally one more question, the depreciation is actually slightly higher on a quarter on quarter basis. I mean is your depreciation linked to the production level or that is not how you do it?
- Ajay Seth** No it is not due to production. Depreciation is higher for a simple reason that the plant B capitalization happened towards the end of September last year. So that entire impact is visible now. Plus we had all the new models that were launched. The dye capitalization also happened in this period. So their capitalization also is part of this. Besides that whatever lump sum royalty you pay on the new models that are amortized over four years. So that impact is also coming. So this is an incremental impact of about 80 crores, where you see year on year, which is on regard of this three main reasons that I just talked about.
- Shrinivas Rao** Okay. And one final question in your Manesar, what is the current level of production daily which you are doing right now and where can we expect it to go by the end of this year as to sort of say ramp up happens in terms of workers and all those things?
- Ajay Seth** So we are about 1600 plus at this point in time and we will ramp up to the required number now for whatever requirement marketing will have from the plant.
- Shrinivas Rao** And you can go to a peak level based on the current capacity of the two lines, say around 2000?

- Ajay Seth** I think 1800 is the peak so we will be there pretty soon.
- Shrinivas Rao** Okay. So you will ramp up to a level of around 1800.
- Moderator** The next question is from the line of Sonal Gupta from UBS, please go ahead.
- Sonal Gupta** Sir just first couple of clarifications, the export revenues will include in Ertiga KD parts that you are exporting, etc.?
- Ajay Seth** Yes, that is right.
- Sonal Gupta** And just on the royalty which you mentioned 38 crores of flight back, so this is reflected within the royalty itself or it is showed somewhere else?
- Ajay Seth** No, it is within royalty because royalty provision now is for the full half year. So first half excess provision has been reversed and it is part of royalty cost.
- Sonal Gupta** Okay and again in terms of given where you are in terms of your raw material cost and the cost pressure out there, I mean you said you have taken less than a 1% increase and even next quarter I think there will be some adverse effect because of the currency on the indirect side. So how do we see this sort of panning out? Do you plan to take more price increases? How do you sort of improve your profitability given the current environment?
- Ajay Seth** So the first emphasis would be look at our cost and see what are the cost reduction possibilities and what is the positive that we can have? Couple of things here – one is that in this quarter we had an adverse sales mix because we could sell much less diesel vehicles because of non-availability. So that is going to help moving forward. Second is that the discounts were at all-time high because again more petrol sales, less diesel sales and therefore average discounts went up. So that should also get corrected. Third is that we had a price increase in October, that is going to get reflected. There of course is effort which the supply chain is making on cost reduction and they are really targets, they are working towards it. So we will see more visibility on cost as we go into third and fourth quarter. So these are the positives. Negative of course is the pressure upon exchange that continues to mount on us. Fortunately there has been some correction from the peak that it saw, so let us hope that foreign exchange does not go volatile again and remains where it is. So I think we will watch positives and negatives. Price correction, etc. is only a consequence of what is going right and what is going wrong which is triggered at a given point in time. So there is no such plan at this point in time.
- Sonal Gupta** And sir just finally on this export thing, you targeted a 15% of sales, by when do you expect to achieve this?

- Ajay Seth** It is very difficult to say. I mean that is the ambition but whether it takes us 2 years, 3 years, 4 years is difficult to say. We are working towards it to see how we can increase our exports.
- Sonal Gupta** And what is your expectation for export volumes for this year versus last year?
- Rahul Bharti** We are trying to maintain export volume as same level as last year.
- Moderator** The next question is from the line of Chirag Shah from Axis Capital, please go ahead.
- Chirag Shah** Sir my first question was – is there any mark-to-market loss or gain on hedges which is there in other expenses or income?
- Ajay Seth** Yes, there is one gain that we have on account of commodity mark-to-market gain, which is reflected in non-operating income, which is to the extent of 30-43 crores. So 43 crores of mark-to-market gain is reflected in non-operating income.
- Chirag Shah** So as and when the underlying happens this will get reversed in your costs, right in RM?
- Ajay Seth** Depending on what the rates are at that point in time.
- Chirag Shah** Second question was on your RM-to-sales, is it right to assume that there is a sharp jump in RM-to-sales that has been seen, is largely driven by adverse product mix or there were some adverse foreign exchange impact also because what I understand is that your hedges were at some slightly favorable rates in 1H for Yen-to-Dollar.
- Ajay Seth** Are you talking about quarter on quarter or sequential, or last year versus this year?
- Chirag Shah** Sequential actually.
- Ajay Seth** So if you were to look at sequential the major impact has been on account of one of course foreign exchange but mix has been quite adverse because as I mentioned our diesel proportion was much less. And second was discounts, which were at all time high. So one is in that foreign exchange exposure, which went up and second is our mix was unfavorable and third was discounts which were all time high.
- Chirag Shah** Is it possible for you to share what were your average exchange rates for the quarter as well as the last quarter and YoY, be it USD to JPY or JPY to Rupee whatever you can share?
- Ajay Seth** We were at 0.57 in Yen-to-Rupee in Q2 last year and we are at about 0.6 this quarter.
- Chirag Shah** And 1Q is possible to share?
- Ajay Seth** 1Q will be at about 0.61.

- Chirag Shah** Sir I have one question on your petrol demand recovery, what are the key drivers according to you for the demand for petrol vehicles to recover? Is it more to do with interest rate scenario? Is it more to do with this fuel price disparity? How should one look at demand recovery for petrol vehicles?
- Rahul Bharti** See basically we had to see how petrol cars are getting affected. One is petrol prices go up so cost of ownership or cost of running the car goes up. So that is one big driver which affects the car demands. Interest rate affects diesel as well as petrol. If you ask me exclusively what is the **cyber 34.46** for petrol demand, it will be the fuel price. Other segments will be common for diesel and petrol.
- Chirag Shah** So if I have to put it like this, the penetration of finance, the customers buying product on finance there is not immediate change between a buyer of a petrol vehicle and diesel vehicle.
- Ajay Seth** You are right.
- Chirag Shah** It is broadly the same, proportion?
- Ajay Seth** Yeah.
- Chirag Shah** And so if the fuel price disparity continue say beyond what we are looking at then what is the thought process on getting customers back to the petrol cars because our diesel engine capacity is limited at least for next 12 months?
- Ajay Seth** See actually we as a company are working on two sides, one is to enhance our diesel capacity. As we have announced already that last year we increased our diesel capacity marginally then we are putting up new diesel plant in Gurgaon in two phases. One phase will start next year. That will add 1.5 lakh vehicles and 1 lakh thereafter. So, total capacity from Gurgaon and engine plant in Manesar will become 6 lakhs. So that is one big change that will happen. At the same time petrol we have to see historically a legacy of our Indian consumers. So our mind is really skewed in favor of diesel for whatever reasons. And I will give you some data, even let us say 5 years back when the gap between diesel and petrol price was around Rs. 15, the diesel penetration was 35%. Now when the difference has gone to Rs. 21-22 the diesel share has increased to 58% rupee. So what we need to do this in is convince and educate customers continuously regarding this. We have done some studies and we noticed that if a person drives than 50 km a day then it does not make sense for him or her to use a diesel vehicle because initial cost of buying is very high. So that is one thing and we have started, this is a slow process because historically we always believe that diesel makes more sense. But we are seeing some initial advantages. Second thing what we are doing is that we are identifying through our databases customers who really drive cars very less. As I said we have got a database of almost 9 million customers and through that database we continue to identify customers whose driving habits are such that the diesel does not make sense for him. So then again it is a process of communication and talking with them that why it is important for them

to take petrol cars. Third segment are the customers for whom acquisition cost, that is buying price is very critical and we have identified a lot of segments where we find that penetration of petrol is much higher than All-Indian..... So that is another segment which we are targeting and initial results are quite encouraging.

Chirag Shah And just going back to the question earlier on this mark-to-market gains on commodity prices, is it possible for you to share what was the number last year in as well as first quarter? Apologies for going back to the previous question which I had on commodity gains or losses that you had.

Rahul Bharti In Q2 of last year there was a small loss on commodities that we had. I will just get back to you on the exact numbers on both Q1, Q2.

Chirag Shah But the quantum would be smaller one, Q1 & Q2, not as big as this particular quarter? Was it the right way of looking at it?

Rahul Bharti Yeah, it will not be of a very high magnitude. I will get back to you.

Moderator: We have the next question from the line of Mitul Shah from Karvy Stock Broking, please go ahead.

Mitul Shah My question is on Ertiga CKD volumes if you can share for the export as well as revenue and second question is related to the Alto's production capacity.

Rahul Bharti We have been disclosing our exports revenue all put together. Now segment wise details we do not share so if you ask us what are the different segment revenues within exports as a policy we would not be sharing it.

Mitul Shah Can you share just CKD volumes?

Rahul Bharti Well it is a value, I mean this is no context of volumes, so we are selling parts and that goes with value, so it is nothing to do with volumes.

Mitul Shah Second question on Alto production. What is the Alto's production capacity?

Ajay Seth I think the first you will have to see in overall context of our capacity. As we have been informing continuously that our manufacturing people have done a good job of developing flexible manufacturing system. So capacities are interchangeable with some effort. So I think they have promised us that whatever market needs we will need we will produce.

Mitul Shah Sir in case if we want to shift from Alto to any other model, so which other models can be assembled on the same line or are all the models possible?

- Ajay Seth** Yeah, actually instead of going into specifics, suffice it to say that we have flexible manufacturing facilities and they are largely interchangeable with some modifications. That is why we have been managing and working for the last few years.
- Mitul Shah** And on the vendor side how flexibility is related to change of models? In case the Alto demand is not as expected and other models' demand is high, so how vendors are flexible in producing components for those?
- Ajay Seth** See as of now our vendors are ready till about 300,000.
- Moderator** We have the next question from the line of Pramod Amte from CINB, please go ahead.
- Pramod Amte** This is with regard to the employee cost behavior in the next 2-3 years. Once you get these Manesar employees on board on the permanent side, how do you expect the cost to behave as a percentage of net sales might be two years down the line?
- Ajay Seth** The employee cost based on whatever changes we have made will go up between 20 to 30 basis points over a period. So the impact of employee cost with net sales will be between 20 to 30 basis points over next couple of years.
- Pramod Amte** This is all inclusive through the Gurgaon plant renegotiation and the Manesar.
- Ajay Seth** That is right.
- Pramod Amte** Thanks. And what was the CAPEX in H1 and what is the plan for the full year?
- Ajay Seth** Full year plan is about 3500 crores. We have incurred about 1200 crores so far. Plan is to have a spend of about 3500.
- Moderator** The next question is from the line of Govind Chellapa from Jefferies, please go ahead.
- Govind Chellapa** I had two questions, one by way of clarification – so if I understand you right you will still be able to produce and sell 400,000 diesel cars this year?
- Rahul Bharti** Yeah, of course.
- Govind Chellapa** Because of all the disruptions in Manesar there will be no change in the full year as far as diesel car sales are concerned.
- Rahul Bharti** Yeah, indeed.
- Govind Chellapa** Second is a follow up to a question asked earlier – now if you assume that the fuel price difference at the pump gate between diesel and petrol does not change from where it is now,

would you think that diesel sales settles at a current level or would we think diesel cars continue to grow faster than petrol even next year?

Rahul Bharti I think a very interesting and very difficult question you have asked and I wish I knew the answer but our experience says that this propensity of Indian consumers to prefer for diesel will continue and of course as the income levels keep increasing their affordability even for a petrol car goes up and so that will compensate for sometime. But like-to-like yes, diesel ratios are going to stay.

Govind Chellapa And a related question is there has been an extraordinary shift towards MPVs and UVs in the current year. Would you attribute that just to dieselization or is it also because there have been a lot of relevant products at the right prices that have come in a current year including your Ertiga.

Rahul Bharti I think it is a sign of Indian car market getting more and more mature and different segments will show different type of growths. Yes, one reason is diesel but another reason is that in let us say last 5 years India would have sold may be around 1.5 or 2 million of 80 segment cars and many of these cars these customers must be upgrading to SUVs and MUVs. And third reason is as you said, the new launches they attract new customers, so a mix of all the three.

Govind Chellapa And move towards UV, I mean you have one very successful product in Ertiga but is that a challenge for you as far as competitive environment is concerned. I mean you are not that strong in UVs and MUVs as you are in cars.

Rahul Bharti Yeah, competition means the challenge anyway, whichever segment we are there if there is a competition that means a challenge, but I think you must give credit to this product and the company Maruti Suzuki that entering into a completely new segment which immediately went into leadership position within six months of launch. So that is the credit worthy and for this we really like to thank our customers who have trust in Maruti Suzuki.

Govind Chellapa And last question on that subject is are there any more products on MPV, UV side from you in the next 12-18 months?

Rahul Bharti I think this as a company policy we really do not share what is our future product plan, but definitely as a market leader we will have to continue to do new product launches, why in SUV I am going to say, in every segment. That is our continuous support.

Govind Chellapa My second question was on loans and advances. They seem to have gone up quite sharply from March, I mean there has been almost a 1000-crore increase between both short term and long term loans and advances put together. Any particular reason for that?

Ajay Seth At least at the year end in March we have to pay the excise duty by 31st March, so whatever standing balances are there they are squared off by the payment, whereas on 30th September

this balance remains as loans and advances and it is paid next month. So that is one reason why loans and advances on 30th September is higher than as on 31st March. And we had some supplier advances also as of 30th September which we had given to suppliers to help them out in their working capital.

Govind Chellapa And genteelly we seem to see in lots of balance sheet that have come out recently that on the working capital side, the trade payable seems to have come off, whereas on the current asset side things have not really improved. Only this current liability seems to have come off and that seems to be true of your balance sheet as well. Is there any industry wide trend that has changed right now or is it just because of the financial difficulties of the vendors?

Ajay Seth Well I cannot speak of the industry but as far as we are concerned our production levels were not of the same level as previous quarters so creditors is a function of what the production level is. So to that extent the level of creditors and it depends on the payment cycle also, depends if you are towards the far end of the cycle your creditors are high, if you are at the shorter end of the cycle your creditors are less. So it will differ from quarter-to-quarter depending on the way on which the cycle is.

Govind Chellapa So I mean there has been no change in the credit terms that you have gone both side of the equation?

Ajay Seth No, there has been no change.

Govind Chellapa Last question – can you comment on the tax rate, I mean how should we look at tax rate? It has been at 19% for the last couple of quarters?

Ajay Seth I think the tax rate would remain at about 20% this year. Given the benefits that we have on R&D and the tax free income so a large portion of our income is getting deferred as we have invested a lot of money to fixed maturity plans. That is going through towards the end of this year and beginning of next year. I think the tax sales would pretty much remain at these levels.

Moderator We have the next question from the line of Hitesh Goyal from Kotak Institutional Equities, please go ahead.

Hitesh Goyal Can you give me the exports revenue for the quarter?

Ajay Seth 824 crores.

Hitesh Goyal And what was it last quarter sir?

Ajay Seth 889 was last quarter.

Hitesh Goyal And sir just wanted to understand why the realizations on a QoQ basis have only dropped by 1%? Is the product mix very adverse this quarter as compared to on a QoQ basis, some clarity

on that. If I see the gross average realizations it has only dropped by 1% on a QoQ basis, but if you look at the mix actually the mix has deteriorated quite significantly because of the strike.

Ajay Seth No it is because the proportion of Ertiga is much larger and the difference in price of Ertiga and the other models is significant so I think that is making up for the shortfall.

Hitesh Goyal Okay and sir one last question on the price hike that you have taken of around 1%, does it fully compensate for the input cost increases that you are taking or it is over and above the input cost hike that you are going to encounter in third quarter?

Ajay Seth That is one of the steps to correct cost. I think there will be various other measures that we will take. So as I mentioned earlier there is a cost reduction program that we are working on. The mix moving forward, it will depend on what mix we sell so that is going to hold. Discounts are at all time high so that is going to be changed. So there will be a combination of factors. So, one factor cannot be attributed to all the cost increases that you see so far.

Moderator The next question is from the line of Vaishali Jajoo from Aegon Religare, please go ahead.

Vaishali Jajoo This is regarding again on the actions you are taking to cut the cost and have an expansion in margins going forward, if we put currency constant and RM constant the efforts we are taking to increase the price, change in the product mix and may be the volume will be higher in second half. Could we see the margins coming back to at least what it was 9% from 6% in the current quarter?

Ajay Seth See if all positives do happen then obviously margins will increase but then we also have to see how the negatives might be currency impact in the case of vendors it is with the lag effect. So for example the compensation that we have created in the third quarter will be based on the second quarter rates. So that is the only catch in the whole thing, but yes, we are trying to move in the right direction and take you on the right steps. Commodities we will have to watch, so far commodities have been soft. If there is any significant jump in commodities so that can hurt. But other than that I think we have been working on improving our sales mix, discounts proposed will average out, price increase will help which has happened in October and obviously the exports realization will help. So all these I think measures put on the positive side, the big negative continues to be the large impact of FOREX because it is so significant that it dampens whatever efforts you may get at times.

Vaishali Jajoo That is what I am telling, if we take a part as a FOREX, the other efforts, will it increase in patches?

Ajay Seth If we have all the positives for sure the margins would improve but that is not reality.

Vaishali Jajoo Okay. And then second is on demand side, if we look at in second half, maybe because of slowdown is just the cyclical thing and then second half if we see the demand not improving

to the extent the industry is expecting. So will the discount increase again in the second half if demand does not come back?

Ajay Seth Normally the second half in Indian context is better than the first half for various reasons because second half is festival and the year end sales happen then the financial year sales happens historically we have not seen that the second half discount is more than the first half. But I do not see any reason it should change this year.

Vaishali Jajoo May not be on a relative basis of the first half, I am talking on a YoY basis. So usually if we take the second half of last year which is relatively -

Ajay Seth I would think it would be less than last year YoY basis.

Vaishali Jajoo So relatively the demand will be less. So will the discount continue in the second half or if that happens -

Ajay Seth Discount will continue, obviously discount will continue not in second half, I can tell you for the next 10 years discount will continue. It is the extent of discount that is what will go up and down.

Vaishali Jajoo But then relatively?

Ajay Seth Relatively I think it will be less than last year YoY.

Vaishali Jajoo Okay.

Moderator Participants that was the last question. I would now like to hand the floor back to Mr. Aniket Mhatre for closing comments. Over to you sir.

Aniket Mhatre Thank you Shyama. On behalf of Standard Chartered Securities team I would like to thank senior management team of Maruti Suzuki for patiently answering all the questions. Thank you very much gentlemen. I would also like to thank all the participants for being on the call. Thanks and have a nice day.

Rahul Bharti Thank you.

Moderator Thank you. Ladies and gentlemen on behalf of Standard Chartered Equities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.