Transcript

Conference Call of Maruti Suzuki India Limited

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Presentation Session

Moderator: Good morning ladies and gentlemen. I am Moumita, moderator for this conference call. Welcome to the 1QFY16 earnings conference call of Maruti Suzuki India Limited hosted by Axis Capital. At this moment all participants lines are in listen only mode, later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. I would now like to hand over the floor to Mr. Ashish Nigam of Axis Capital; thank you and over to you Mr. Nigam.

Ashish Nigam: Thank you. Good morning everyone. On behalf of Axis Capital, Welcome to the Q1FY16 results conference call of Maruti Suzuki India Limited. I will take this opportunity to also welcome the top management team from Maruti Suzuki. I will hand over the call to Mr. Nikhil Vyas from Maruti who will take it over from here; over to you Nikhil.

Nikhil Vyas: Thank you Ashish; a very good morning to all of the participants. Our apologies for rescheduling the call and we thank you for your patience and understanding. May I introduce to you the management team from Maruti Suzuki. Today, we have with us our CFO Mr. Ajay Seth, Head of Marketing and Sales, Mr. R. S. Kalsi, Vice President Finance, Mr. Pradeep Garg and team members from finance. From Corporate, we have Vice President - Corporate and Government Affairs, Mr. Rahul Bharti. The con call will begin with a brief statement on the performance and outlook of our business by Mr. Seth. After which, we will be happy to receive your questions. May I remind you of the safe harbor? We may be making some forward-looking statements that have to be understood in conjunction with the uncertainty and the risks that the company faces. And I may also like to inform you that the call is being recorded and the transcript will be available at our website. I would now like to invite our CFO Mr. Seth. Over to you, sir.

Ajay Seth: Thank you Nikhil. Good morning ladies and gentlemen, and welcome once again to Maruti Suzuki's conference call. Let me begin by paying our deepest homage to Dr. A. P. J. Abdul Kalam, one of the greatest leaders the current generation has seen. As President of India, he graced our factory in 2007 and showed keen interest in engineering and operations. He praised the company's efforts at reducing cost and improving productivity. We will cherish the moments shared with him.

Now, I will come to our quarter 1 performance. In the previous year 2014-15, the Indian passenger vehicle industry saw a moderate growth of 3.9% and within the whole year only one quarter posted a growth above 5%, which was aided by the festive season. Compared to this backdrop, industry has started financial year '16 with a relatively better growth. During the first quarter of the current year, the industry posted a growth of 6.2% as compared to 1.3% in the same period last year. Although the situation is better than the previous year, the recovery is still gradual. Maruti Suzuki could once again outperform the industry and posted a growth of 13% in the first quarter. Extensive efforts in marketing and sales aided by good products helped it increase sales. Inventory correction during the preceding quarter helped us stay lean during this period. As seen in the previous quarters, the petrol segment for the company continued to witness a strong pull from market and posted a growth of 19%. This was broadly in line with the industry growth. Industry diesel sales declined by 6.8%, however, with calibrated and granular support from sales promotion, we could arrest the decline and keep our diesel sales at the same level as last year. With this at the end of the quarter 1, the share of petrol vehicle sales in passenger vehicle industry stood at 56% as compared to 54% at the end of quarter 4. During the quarter, export sales grew by 21.8%. Apart from positive response to the new launches, duty reduction in Sri Lanka added to export sales. Besides Alto and Celerio, the Swift and Ciaz also contributed handsomely to the overall sales. The company is working on the sales enablers like increase in sales network and strengthening service and parts supply in markets like Africa and Latin America to expand sales.

Coming to financials, the company registered net sales of Rs.130,783 million at a profit of Rs.11,929 million, up 18.1% and 56.5% respectively over the same period last year. During the quarter higher volumes, cost reduction efforts, lower sales promotion expenses and favorable foreign exchange helped improve the performance. You would be aware we are in an exciting phase of launching new models. While Maruti Suzuki has always led the Indian industry in customer satisfaction, we will keep raising the bar for all our customers. We are creating another retail channel, the Nexa, for some customers who have a different set of expectations. We look forward to more delighted customers who will help us delight our investors. We can now take your questions, feedback, and any other observations that you may have. Thank you.

Question and Answer Session

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

Sir, our first question comes from Mr. Yogesh Agarwal from HSBC Bank. Please go ahead sir.

Yogesh Agarwal: Yeah, hi sir, good morning. I just have couple of questions. Sir, as you mentioned, the market is still a bit lackluster, and you have so many new models coming, not just you, some competition as well. So what do you think is the appetite for new models? Will these be able to expand the market (or the growth and the volumes) for these will come from cannibalizing the existing products for you?

R. S. Kalsi: Well, I would start on a note that quarter 1; we have achieved 13% growth with 2.8% gain in our market share. While, if we talk about competition, the growth has been only 0.8%. The growth is being driven by new models to a great extent. Also, enhancing the penetration and reach is further helping us in developing our market. So, I would like to say that when you talk about launching of new models or work around that, our intent is always towards growing the market rather than cannibalization. Little bit of cannibalization, of course, does happen within a portfolio, but certainly the kind of products, which we are coming out with, they will help us to a great extent in growing the market.

Yogesh Agarwal: Right, thanks Mr. Kalsi. I have one question on finance. Sir, you have done around 2,000 crores of EBITDA in this quarter and the last quarter as well. So, if we assume 4,000 crores of CAPEX, can we expect sharp improvement in the cash flow this year compared to the past few years?

Ajay Seth: So, the cash flows will be dependent on two things, one is the CAPEX that we will incur this year and also the effective changes in the working capital, in terms of whatever inventories and finished goods, etc. It will be a combination of the two. But depending on how the performance moves going forward, and how the cash and profits moves going forward, because you will also realize that depreciation also is going up because of the investments that we have made last year and some investments that we are going to make this year. So, obviously if there is any cash, which is left after we pay the dividends and the capital expenditure and any changes in the working capital would either be added to the current cash flow and if there is net decrease, then it will get reduced from the cash flow.

Yogesh Agarwal: Okay, thank you sir.

Moderator: Thank you sir. Sir, we have our next question from Mr. Pramod from Goldman Sachs. Please go ahead sir.

Pramod: Yeah, thanks a lot for the opportunity. This is Pramod. Sir, my first question pertains to the mini segment in the industry. We have seen that this segment forming close to 30% of the passenger vehicle volumes has shrunk to close to 20% over a period of 4-5 years. I just want to understand what is causing this? Is it like just the first time buyer proportion coming down purely or is it like lot of the first time buyers are directly moving to the next segment? So if you can help us understand this and how do you see this in a way affecting or playing out in the longer term in the industry?

R. S. Kalsi: See, I would like to set the context first; Indian market per se is a highly underserved market. So, the opportunities would always remain there at the mini segment. At the same time, the customer in that segment is very price sensitive. So, if you look at the market scenario, there were expectations of softening of the interest rates right in the previous year, then people were expecting may be by Q4 of 2014-15. Subsequently their expectations moved on to quarter 1. However, that has not happened. So that is one thing, which impacts the customers at the entry level, particularly in the mini segment. Secondly, if you compare it with the last year, during this period we had the excise benefits from the government, which were withdrawn during the budget. So, that also impacted the prices of the entry level vehicles. That is also one of the reasons why there is slight pressure on that segment. At the same time, if you talk about Maruti’s portfolio of first time buyers, we have been able to increase it from 43% to 46%. So, from that point of view, yes, there may be some customers who are straightaway going in for higher segments.

Pramod: Okay. Thanks a lot sir. And my second question is to Mr. Seth. Sir, your net margins have gone back up significantly despite your Royalty rates increasing, despite the competition intensity increasing, and EBITDA margins are at a lifetime high. So I just want to understand how do you see it on a longer term basis as to what ideally would be the desirable or sustainable level of operating margin or the net margin.

Ajay Seth: So, one thing that I would like to specify is that we don't give any guidance for margins, so therefore I would not like to specifically comment on margins, but the only thing I would like to say is that we will continue to work in terms of making sure that all our drivers are in place. So, all the factors, which have been always maintained, things like the cost side of the business, productivity side of the business, better utilization of capacities, all that stuff will continue to be done the way it was being done earlier and with more intensity. But there are certain things, which are not in our control, things like commodities, foreign exchange, the discounts in the market, which will depend on how the markets behave. So, at the moment, if you see most of these factors are favorable because currencies are kind of in our favor. We have had lot of gains because of currency. Commodities have softened, so commodities impact also is visible. It could also be visible in a bigger way as commodities are softening. So these are the positives. But then in a business, you can also have certain negatives.

Pramod: So, in a way you think the current levels are kind of sustainable given the positives and the negatives in the environment.

Ajay Seth: So, you guys should take a clue from here in terms of what the positives and negatives are in the quarter and then derive, I think, you are the best people to derive that.

Pramod: No, sir, I want to understand whether you have reached a point of the margin level where you say that it is time we reinvest back in the business in a meaningful way to further strengthen our position because you did talk about that.

Ajay Seth: We will continue to do that, I think we will continue to do that. We have never shied away from reinvesting in our business whether it is our infrastructure, whether it is our marketing spends. We have never shied away. We will continue to do that, and you know, we have been doing it not from now, not this year, but we have been doing it for last many years.

Pramod: Okay sir, and my last question is on the Seventh Pay Commission, there have been lot of talks about substantial salary increase for government employees and last time around the industry benefitted massively from that. So, is there any time line, which you can share by when you expect that you will start seeing the impact of the demand coming through, because I believe lot of these government employees will not exactly wait for the money to come in their hand because it is a fairly secure job, they could be preponing their purchases based on the expectations on the payout. Do you expect that it will happen in second half of this fiscal or say, in terms of timeline, whether in FY17 more or it can start in FY16 itself?

R. S. Kalsi: See, we are always focused on micro segmentation and marketing in these segments, so let's see, we are always prepared to capture the opportunities. As and when these opportunities come, we will share it with you.

Pramod: No, but do you see it happening in the near term future sir, say in FY16 do you see the demand impact coming on because of Seventh Pay Commission is what I wanted to understand.

R. S. Kalsi: No, first you have to wait for it to happen and then we will see what impact it has on the market. On our part we are preparing our teams to be ready in a state of say, active waiting or aggressive waiting to capture the opportunity.

Pramod: Okay sir, fair enough. Thanks a lot and best of luck sir. Thank you.

R. S. Kalsi: Thank you.

Moderator: Thank you sir. Sir, our next question comes from Mr. Apurva Kumar from Jefferies. Please go ahead sir.

Apurve Kumar: Hi, thanks for the opportunity. I have two questions, first on the Nexa roll out. Sir, I wanted to understand what will be the impact of the new distribution channel on your P&L for FY16 and sir that would be my first question.

Rahul Bharti: We invest in our customer; returns come automatically. So, we are not looking at it in that manner.

Apurve Kumar: Right, but do we see any additional costs because of this roll out for the current year?

R. S. Kalsi: Normal cost is on the model itself, the model, which we are rolling out. We have spent about 600 crores on S-Cross model. However, as far as the channel is concerned, all this expenditure is, you know, borne by the dealer. As far as we are concerned, we are giving them guidance in terms of design, what elements should be fitted at the showroom, training to the dealer relationship managers, etc. So, we are doing all that handholding. However, as far as investments are concerned, these are all dealer-centric projects and dealers are putting in all the money there.

Apurve Kumar: Okay, and sir my second question would be on your spare parts business, can you share some light on what would be the total market for your spare parts and how much would be your share in that?

R. S. Kalsi: See, point here is that our spares business is quite a complex business, we have 55,000 parts, which we are catering and there are about 1.4 million vehicles, which are serviced within our network and large number of vehicles outside network also. So, our intent always is to ensure that no vehicle goes off road for want of our parts across the length and breadth of the country. Our focus primarily is on catering to the customer requirements.

Apurve Kumar: Sir, the reason I was asking was because at some point once the GST comes in, probably the organized players would get higher share of the spare parts business, that's why I wanted to understand, if there is scope of further growth or substantial growth for you in this…

R. S. Kalsi: See, we already have a carpet coverage across the country, in the sense that the spares are sold through our dealerships, the spares are available at our Maruti Authorized Service stations, all the 3000 plus workshops, then there are more than say 30,000 independent workshops across the country and we have a network of our distributors with more than say 580 touch points, with the distribution infrastructure with them in terms of delivery vans and two-wheelers, etc. So we ensure that at every nook and corner of the market, we are present. So that is also helping us in our mission to ensure that genuine parts are used by our customers. And we try to block the space for non-genuine parts as far as possible by ensuring the availability of these genuine parts across the country, so that's the way we look at it.

Ajay Seth: To add to what Mr. Kalsi said, the point that you made on GST, we are currently doing a study on GST in terms of how it is impacting us in various facets, this will also include spare parts. The point that you made that will it have some impact on our business, we will study that as well, and there could be some impact, so as and when we complete the study, we will get to know how it will impact our overall supply chain and spare part business.

Apurve Kumar: Sir, just one last question related to the pay commission hike. Recently, the public sector banks have paid out the arrears for their employees. The hike is around 15% and along with the arrear payment, it is quite significant. This has happened in the last one month or so. Have you seen any uptick because of this payment?

R. S. Kalsi: We have some tie-ups with these banks. So, we are working on it and it is not that one gets the money today, and evening he starts to move towards the dealership to buy a car. It is a decision which takes time, which evolves over a period of time, family is involved, and the guy takes a call on which model, petrol or diesel, which color, etc. We are working on it and in may be in due course of time, we will be able to capture this opportunity.

Apurve Kumar: Okay sir. Thanks a lot for the response sir. That's it, thank you sir.

Moderator: Thank you sir. Sir, our next question comes from Mr. Sahil Kedia from Barclays. Go ahead sir.

Sahil Kedia: Yes sir. Thank you for this opportunity. Just one question, regarding the new launches that we have come up with, can you help us understand what is the level of localization that we are targeting on some of these new launches that we are coming out with and also at the end of last year what was the level of localization both direct and indirect?

Ajay Seth: See, the level of localization that we have reached in terms of direct and indirect, now is close to about 85%, 84%, so we are about 16% import content, direct and indirect, put together. And our future models that we are launching, generally we make sure that the localization level is in this ballpark figure. On all our future model launches, we are very focused on import content. There could be some stray cases where specific item has to be imported, so initially there could be slight increase in import content in that model, but we will try and bring it down over a period.

Sahil Kedia: So this is true for all the premium end products as well that you will be targeting a similar kind of number?

Ajay Seth: Generally yes, but there could be some exceptions in a few models, generally yes.

Sahil Kedia: Okay. And can you also share the export revenue for the quarter, I am sorry; I may have missed it in case you shared it earlier.

Management: The total export revenue for this quarter is ~1,380 crores.

Sahil Kedia: Alright, I will come back in the queue for questions. Thank you.

Ajay Seth: Thank you.

Moderator: Thank you sir. Sir, our next question comes from Mr. Binay from Morgan Stanley. Please go ahead sir.

Binay: This is Binay, thanks for the opportunity. My first question is more on looking at your model cycle, the company usually had a practice of launching one model a year. Now if you look at the two models already launched, four coming ahead, you have gone to almost 2 to 3 models in a year. Is this like a bunching up of models that we are seeing now or do you think that over the next five years you will be actually on a more aggressive new model path, that will be my first question.

R. S. Kalsi: Well, you see, we are working towards our plan of 2 million vehicles and this is a step in that direction. Suzuki has already declared that over next five years they would be coming out with 20 new models globally. So, we would also be getting a number of models from there and these will go in our existing channels as well as in the new premium channel that we have launched. So, our focus is primarily towards achieving 2 million sales over next couple of years, and keeping that in mind we are certainly bringing in more and more models and providing world-class vehicles to our customers.

Binay: So in that sense can we expect more like two new models a year from here to 2020…

R. S. Kalsi: As I mentioned, Suzuki has declared that there are 20 models, which are going to be launched over next five years, so our pipeline at our engineering and product development level is always full. Now, which model comes when and how many models come in a year, that all depends on the market situation and our overall planning for the country.

Binay: And secondly, looking at your margins, typically the royalty payments in the past have always happened in May, so is there any royalty roll back or something like that sitting in the quarter and added to that, actually I joined the call little late, if you could share with us the discount per car number for the quarter?

Ajay Seth: Payment happens in May, so there could be some impact of the exchange variation in that quarter. I think we have had some impact of exchange variation even in this quarter where the covers that we had taken and the actual liabilities have been booked; I think we had to take a foreign exchange loss of about 40 crores. So, 40 crores would be part of your manufacturing and administration expenses. So, that is the loss that we would have taken in our manufacturing and expenses against the forward cover versus the actual exchange rate as of end of June. So, that is the only thing, but you reinstate your liability again in September, because you actually pay this in November, so this quarter liabilities would, June liability would be reinstated in September and if there is any impact of this quarter's liability, that you will see in September plus or minus, but last years, as we mentioned was a loss of about 40 crores which we paid in May for the covers that we have taken.

Binay: Right and can we share with us the discount per car and the royalty number for the quarter?

Ajay Seth: Royalty was at 728 crores, which was 5.6% of net sales and the other question you asked was on discounts, discounts per vehicle were at 16,000, which was actually higher than Q4 of last year, Q4 discount were at 15,000, we were at roughly about Rs.1000 higher than Q4 of last year.

Binay: This is mostly seasonality, right?

Ajay Seth: Yeah, it is mostly seasonality.

Binay: Right, great, I just had last question, anything on export realization coming down, like should we read anything into it?

Ajay Seth: No, export realization would be dependent on mix that you sell in the given quarter, so it will keep varying depending on the mix, so there is more focus on Sri Lanka. So, mix can change based on countries where you are selling.

Binay: Great. Thank you so much, sir and best of luck for the future.

Moderator: Thank you, sir. Sir, our next question comes from Mr. Sonal from UBS Securities. Please go ahead, sir.

Sonal Gupta: Hi, this is Sonal Gupta here from UBS. Sir, my question is one, just on the Celerio Diesel launch, what has been the response and what is the expectation here?

R. S. Kalsi: See, Celerio Diesel has been very well received by the customers and the numbers that we sell now are higher than our optimistic estimates.

Sonal Gupta: So, could you share the number around…

R. S. Kalsi: No, variant-wise numbers, as a policy we do not share.

Sonal Gupta: Okay and just in terms of, I mean, while you said the direct and indirect, could you break that into Euro and Japanese Yen exposure, because I think last call you mentioned that we will benefit from the Euro weakening as well, so if you could break that up?

Ajay Seth: We will get back to you on this, we don't have that exact detail now with us.

Sonal Gupta: Okay and sir, just my last question again coming back to this thing on first time buyers, I mean, if you could give some sense on how is the market in say the top 10 or top 20 cities whichever number you have in terms of entry level cars, I mean, like say up till the Wagon R, what proportion of the market do they constitute and are you seeing an increase in the number of first time buyers for say Swift and Dzire segment over the last year or so.

Rahul Bharti: Yeah, so broadly the momentum has continued as we had shared last year, so earlier the rural markets were performing, now since the past year the urban markets are also growing.

Sonal Gupta: No, my question was more from a first time buyer or entry level segment perspective, I mean, are you seeing that segment as sort of shrinking in the top 20 cities?

Rahul Bharti: No, it is not shrinking. As Mr. Kalsi had shared, actually the first time buyer percentage has gone up to 46%.

Sonal Gupta: That is for you, but overall industry?

Rahul Bharti: For Industry, it is very difficult to monitor, we would not have the figure.

Sonal Gupta: Okay and just last clarification, the diesel volumes you said are same as last year, so is it 85,500?

Rahul Bharti: Yeah.

Sonal Gupta: Okay, thank you so much.

Moderator: Thank you, sir. Sir, our next question comes from Mr. Jatin Chawla from Credit Suisse, please go ahead sir.

Jatin Chawla: Sir, good afternoon, sir. Just wanted to get an update on where are you right now in terms of your R&D capability and what is the plan for the next 3 to 5 years, I think, you are targeting to have a capability of a full model change then gradually scale it up, so just an update on that?

Rahul Bharti: See, we have scaled up our engineers to about 1,300 numbers and while the hardware and infrastructure is in place, but a lot of R&D resides in the minds of the engineers. So, it is the experience, the insights, the design competence that they pick up and that generally takes about 2 product cycles. One product cycle is roughly around 4 years, so it is a long term process, but we are very steadily building strength and our path is, first, we will develop top-hat which is the body structure, then we might go to platforms and at some point of time engine modification that will be the plan.

Jatin Chawla: Okay, that is useful. This is a related question to that, if you could just kind of broadly highlight the CAPEX plan for the year and key areas where that would go?

Ajay Seth: Jatin, CAPEX will be in the vicinity of about 4,000 crores and then again it will largely be spent in new models, it will also be spent in areas of R&D, it will be spent in some marketing infrastructure, that we have talked about earlier and then there is routine normal annual CAPEX, so these are the four categories where we are going to be spending the CAPEX.

Jatin Chawla: Okay and just one quick question I could squeeze in, has there been a change in your classification on some items into, where more is going into operating other income. I think you restated your 1Q numbers for last year, have you restated?

Ajay Seth: Jatin, if there are any expense write backs that happen in a quarter or a year, so those have been now shifted to operating income.

Jatin Chawla: Okay and there was this one off asset impairment charge, what was that related to?

Ajay Seth: There are some assets which are not in use and because of being idle assets, in the verification we have taken provision that was required to be taken for these assets which are not in use.

Jatin Chawla: Okay, great, thank you.

Moderator: Thank you, sir. Sir, our next question comes from Mr. Jinesh Gandhi from Motilal Oswal. Please go ahead, sir.

Jinesh Gandhi: Hi sir, congrats on good set of numbers. My question pertains to the commodity's cost benefit, have we seen any meaningful commodity cost benefit in this quarter and do we further see benefit coming through due to the contracts which we are in?

Ajay Seth: I think some benefit is visible, not all. There could be some more benefit that we can see, because commodities continue to slide. So there could be some more benefit that we can see in the next quarter, but bit of it has already been captured in this quarter that you see.

Jinesh Gandhi: Okay and secondly what would be our average JPY INR rate in this quarter?

Ajay Seth: We will be close to 0.52.

Jinesh Gandhi: Okay and sir, last question pertains to the tax rate, in this quarter we have seen some increase in tax rate, is it a more sustainable kind of tax rate or it is just because other income is lower and hence tax rate has been higher?

Ajay Seth: So, basically the other income is getting postponed. The tax rate is likely to be higher at about 27% this year compared to 24% last year. So, there will be a slightly higher tax rate this year.

Jinesh Gandhi: Okay and sir, in terms of our treasury, what proportion of our treasury would be in long dated papers now?

Ajay Seth: Our intention is to virtually move everything to long dated papers, although typically fixed maturity plans investment would be about 20% of our portfolio, balance would be in liquid schemes and liquid plus schemes, but you can hold it till whatever period you like to hold it.

Jinesh Gandhi: Okay, but eventually you will move it towards a longer period, especially the liquid fund?

Ajay Seth: Correct.

Jinesh Gandhi: Okay, from that perspective our non-operating other income which you have reported of 172 crores, that would be more of a sustainable run rate going forward?

Ajay Seth: I think it will further come down because a lot of it is getting shifted now to maturity after 3 years, so you may see a drop in other income because it will get accumulated and it will hit us after that threshold of 3 years. So, other income actually in this year will see a drop, because we are accumulating it and to make it more tax efficient we will kind of run it down only after 3-year threshold.

Jinesh Gandhi: Okay sir, thanks and all the best.

Moderator: Thank you, sir. Sir, our next question comes from Mr. Amyn Pirani from Deutsche Bank. Please go ahead sir.

Amyn Pirani: Yeah, hi sir thanks for the opportunity. Most of my questions have been answered. One question on your employee costs which have been growing at around 25% to 30% YOY for the last few quarters, so just wanted to get a sense, is there anything specific which is there or this is the normal run rate now?

Ajay Seth: Every year you have to make provisions for the salary increase for the employees. This year we also have a wage agreement which is under finalization, every three years you have wage agreement, so I think there will be a provision impact of the increase of salaries and wage agreement, etc.

Amyn Pirani: Okay and the wage agreements are happening both for Gurgaon and Manesar right now or only one of them?

Ajay Seth: No, it happens for both the plants together, so it is for Maruti as a whole.

Amyn Pirani: But it has not been finalized as of now, as to what could be the increase in wages?

Ajay Seth: No, it is still going on.

Amyn Pirani: Okay sir, thanks a lot for the opportunity.

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

Chirag Shah: Thanks for the opportunity. Sir, first question is on launches, would it be a right statement to say that the wide spaces in the mid category, the Swift Dzire or that price band category are exhausted for introducing new models as such given and hence your focus has shifted significantly to the above say 7 lakh category?

R. S. Kalsi: No, in fact that is not the case. You see, as I mentioned in the beginning that our market is highly underserved market, with a penetration of just 18 vehicles per 1,000 while globally it varies between 400 to 800. So, there is a huge opportunity in every segment and there is a huge middle class segment which is emerging. So, our focus is to provide vehicles in all the segments. We are totally focused on that. At the same time over the last 3 decades our market has evolved in a big way. Customer has also evolved. So there are customers who have used our vehicles at different stages in their life. Some customers are on the lookout for something bigger, something more luxurious and something more premium. So, we are also focused on those customers. So, we are bridging all the gaps in our portfolio, that's the way we are approaching it.

Chirag Shah: Fair point. Sir, on the CAPEX side, in the past we have been highlighting that the large part of CAPEX is going to go towards marketing spend, now the fact that the Nexa dealer, the investment is done by the dealers themselves and not by Maruti in terms of land and the machinery, how should one look at your CAPEX guidance of Rs. 40 billion, how much cushion you are keeping in that number?

Ajay Seth: There is no cushion, Chirag, because what we have said is that there will be spend in terms of expanding our own network, so we are talking about setting up regional stock yards, we are talking about setting up spare parts stockyards, etc. So, broadly I think the point that we are making is that we are looking at expanding our own infrastructure so that we have better turnaround of both parts and vehicle sales, so, it is in these areas, but dealers will continue to spend in the areas that they are required to spend in. So, Nexa is one part of it. Increasingly you will see that we will be able to get more closer to our targets in terms of meeting our CAPEX, so we have just had our board meeting where we had a quarterly review of our CAPEX, we are in line with our targets, so I see no reasons why we will not be able to meet our targets of spend in marketing and sales infrastructure as you have said.

Chirag Shah: And just last if I can squeeze in, the 1.6ltr diesel engine that is going to come in S-Cross is actually a FIAT sourced engine or it is in-house developed engine by Suzuki?

Rahul Bharti: It is an engine on which Suzuki and FIAT have worked jointly.

Chirag Shah: Okay great, thank you very much.

Moderator: Thank you, sir. Our next question comes from Mr. Kapil Singh from Nomura Securities. Please go ahead sir.

Kapil Singh: Yeah, hi sir, good afternoon and congrats on a good set of numbers. I just wanted to check in terms of margins. We are now close to 17% margins on adjusted basis, how do you see things moving from here, I mean, should we expect that if the commodity benefits come in further there can be further expansion and simultaneously I also see that other expenditure to sales has been on the lower side this quarter, especially if I adjust for the one off item. Also, there have been no new launches and advertising campaigns. Should we expect them to rise in the coming part of the year?

Ajay Seth: So, on margins I just made a comment clearly that margins are dependent on certain factors that are within our control and certain factors which are not in our control. So, obviously there is a focus on increasing our market share. There are new product launches, so there is going to be an increase in marketing spends, that's for sure. So, we will see an increasing marketing spend in the coming quarters, but at the same time I think we will also have to see how both currencies and commodities move. Fortunately for us they are favorable and commodities seems to be cooling off, so we see no reason why commodities should be at worse and so are currencies. So, these are two factors that will also determine where the margins are and I guess if the volumes go up, with capacity utilization there will be some economies of scale that you can also see. So, these are some of the positives, but on the negative side, as I said marketing spend is likely to go up and we would also have to see how the mix moves as we go along.

Kapil Singh: Right and sir, did we see any kind of FOREX benefit coming in this quarter, because last quarter we had talked about some benefits coming in on the Euro, so…

Ajay Seth: Yes, we did. If have to give you a number between Q1 of last year to Q1 of this year, so the exact benefit in terms of basis points would be ~200 basis point on account of FOREX.

Kapil Singh: Okay and sir, if you were to compare from Q4?

Ajay Seth: Q4 to now would be very marginal. I think it will be about 10 basis points more or less, so not too much.

Kapil Singh: This is because we had some 40 crores as you said some 40 crores kind of loss on the royalty as well?

Ajay Seth: Correct.

Kapil Singh: Okay, that's all from me, thank you so much, sir.

Moderator: Thank you, sir. Sir, we have our next question from Mr. Jai Kale from ELARA Capital. Please go ahead sir.

Jai Kale: Yeah, thanks for taking my question and congrats for the good set of numbers. Sir, my first question was on the rural growth side, what has been the rural growth for you and is it largely coming in from the existing markets or there has been some improvement due to the new villages that you had planned to go into in this fiscal?

Rahul Bharti: Yeah, so the rural growth has been approximately in double digits.

Jai Kale: Okay, what would be that, I mean…

Rahul Bharti: Yeah, it is about 15%.

Jai Kale: Okay and is it largely from the existing markets or is it to do with a lot of new markets that you are entering into?

R. S. Kalsi: Well, last year we had approached 125,000 villages across the country. This year, we further plan to enhance our reach. So, we are adding another 25,000 villages. So, total this year would be about 150,000 villages. This will help maintain the momentum in the rural markets.

Jai Kale: Okay, sir and regarding our AMT transmission, what is the capacity currently and what is the plan in the next 2 years in terms of introducing this to cover your any other models and would it be first introduced in premium models or you would rather go for the Swift and Dzire kind of segment?

Rahul Bharti: So, we are increasing our capacity from 4,000 to 8,000.

Jai Kale: Okay and you would be, in terms of introducing in the new models it would be mainly in the Swift and Dzire?

Rahul Bharti: That is a very carefully considered decision based on the customer profiling for that product and that market segment, so that is a call that our marketing and our product planning people will take from time to time.

Jai Kale: Okay, and sir the last question if I may, what would be your fixed cost as a percentage of sales, just to get the scope of operating leverage benefits going forward?

Ajay Seth: Fixed cost would be between 11% to 12%.

Jai Kale: Okay, thanks a lot and that's all from my side, thank you.

Moderator: Thank you, sir and sir, we have our last question from Mr. Ambrish Mishra from JM Financial. Please go ahead sir.

Amrish Mishra: Yeah, thanks for the opportunity and congratulations. I had 2 questions, one you talked about capacity, today if I go by what monthly run rate we have, we are close to anywhere between 85% to 90% utilization, I mean, any plans on raising this capacity before the Gujarat comes in?

Rahul Bharti: See, our production people have assured us that they will keep giving us the numbers that we need from the market. There is no further capacity increase plan in Haryana as of now from current levels.

Amrish Mishra: And what is that, 1.55 million is that correct?

Rahul Bharti: Yeah, currently we are at 1.55 million and depending on how the market pans, they will try to generate through productivity stretch.

Amrish Mishra: Okay and in the past you had spoken about royalty on new models to be paid in rupee, would S-Cross be the first model to be paid in rupee or it is still some time to come?

Ajay Seth: We are still working out the arrangements and license agreements, we will come back to you as and when these are finalized.

Amrish Mishra: Okay and just lastly, I missed this 4,000 growing to 8,000 a month, what was this for? I missed that.

Rahul Bharti: Automatic, AGS technology capacity per month.

Amrish Mishra: Okay, got it, thank you so much and all the best.

Rahul Bharti: Thanks.

Moderator: Thank you, sir. Sir, now I hand over the floor to Mr. Ashish Nigam for closing comments. Please go ahead sir.

Ashish Nigam: Thank you. On behalf of Axis Capital thank you all for joining the call today and thanks again to the Maruti Suzuki management for giving us the opportunity to host this call. Have a good day everyone.

R. S. Kalsi: Thank you.

Ashish Nigam: Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

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