

Transcript

Conference Call of Maruti Suzuki India Limited

Event Date / Time : **27th October 2016, 04:00 PM IST**

Presentation Session

Moderator: Good afternoon ladies and gentlemen. I am Moumita, moderator for this conference call. Welcome to the Maruti Suzuki Q2 FY17 conference call. We have with us today the management team of Maruti Suzuki. At this moment, all the participant lines are in the listen only mode. Later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note that this conference is recorded. I would now like to handover the floor to Mr. Deepak Jain from IDFC Securities. Please go ahead sir.

Deepak Jain: Thank you Moumita. Good afternoon everybody. On behalf of IDFC Securities, I welcome you to the Maruti Suzuki Q2 FY17 conference call. I now hand over the floor to Mr. Nikhil Vyas from Maruti Suzuki. Over to you Nikhil.

Nikhil Vyas: Thank you Deepak. Ladies and gentlemen, good afternoon once again. May I introduce to you the management team from Maruti Suzuki? Today, we have with us our CFO Mr. Ajay Seth, Vice President – Finance Mr. Pradeep Garg and Mr. Sanjay Mathur and other team members from the finance. From the Corporate we have the Vice President – Corporate and Government Affairs Mr. Rahul Bharti. The concall will begin with the 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. 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 CFO, Mr. Seth. Over to you sir.

Ajay Seth: Thank you Nikhil. Good afternoon ladies and gentlemen and welcome once again to Maruti Suzuki's conference call. Before I begin with our Q2 performance, I would like to take a moment to update you about a new milestone. The company was ranked number one in JD Power customer satisfaction index study for 17th consecutive year, reinforcing our commitment of delivering a high quality after sales experience to customers.

During the second quarter of the current financial year, domestic passenger vehicle industry posted a growth of 17.8%, indicating sharp improvement in the market situation, aided by good monsoon, announcement of Seventh Pay Commission hike for Government employees and early start of festive seasons. The company could once again outperform the industry and posted a growth of 18.5% during the quarter. This quarter also has been marked with strong performance of our models in segments like compact, utility vehicles, mid size and vans with Baleno, Vitara Brezza, Ertiga and Ciaz attaining leadership positions in their respective segments. Notably Baleno has now crossed the cumulative domestic sales of 1 lakh units. The share of petrol vehicle sale in the passenger vehicle industry stood at 59.2% as compared to 53.7% during the same period last year. The petrol segment for the company continues to witness a strong pull from the market and posted a growth of 15.9%. Industry diesel sales, excluding the company, declined by 5.8%. However, we not only arrested the decline, but posted a growth of 24.2% in our diesel portfolio on the back of strong product demand.

The company has achieved yet another milestone with cumulative exports of 1.5 million vehicles. The company started exports to Europe in 1987-1988, when a small number of cars were sent to Hungary. Thereafter exports have grown at a steady pace, as new models and markets were added over the years. This year owing to economic slowdown in most export markets, the outlook remains flat. Export sales in quarter two did show a growth of 17.9%, although on a low base.

The company registered net sales of Rs. 175,946 million and a profit of Rs.23,980 million, up 29.5% and 60.2% respectively over the same period last year. Higher volumes, higher non-operating income, material cost reduction initiatives together contributed to profit. This was partially offset by adverse foreign exchange movement in the first half of the fiscal.

Towards my conclusion, may I wish you and your family a very Happy Diwali. When you return home on this Diwali weekend, remember that India comes home in a Maruti Suzuki. 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 keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Participants are requested to restrict to one question per person during the initial rounds.

The first question comes from Mr. Pramod Kumar from Goldman Sachs. Please go ahead sir.

Pramod Kumar: Thanks for the opportunity and congratulations on an excellent set of margin performance and also market run, in terms of the good reception to your products. Sir, my first question pertains to the quarter which is basically on the profitability or the margins, I just want to understand how should one look at these margin levels, because historically you guys have stated that you are more comfortable with the margin in the range of 15% to 16% on the longer term and now you are well over that number, despite having production constraints. So, I just wanted to hear your thoughts on, is that trend changing now, given the product mix or would you stick to 15% to 16% margin guidance on the longer term?

Ajay Seth: Pramod, we never have given any guidance on the margin range. I think margin is the result of how you perform in a particular quarter. I think what is important is, not to look at the quarter, but to look at a much longer period for margins, let's say half year or a year. So, some quarters could be very good and some quarters may not be as good. And there are varieties of factors that affect margins. In quarter two particularly, our operating leverage benefits were significant, because we more than utilized our 100% capacity. So therefore you see that our expenses, fixed cost as a percentage came down significantly, including depreciation. Also, mix at a given point in time would have impact. Discounts in this quarter were lower when compared to last year. So, that also gave us some fillip. On the negative side, however the currency movements have adversely affected us. And some increases in commodity prices have adversely affected us. But, these have been more than offset by the other factors that I just mentioned. Our capacity, as we have already said is about 1.5 million in Haryana. And the future capacity is going to come in Gujarat. So, whenever you have capacity expansion, you are bound to have a higher fixed cost to begin with, before it starts falling, once the plant goes full stream into 100% utilization. So therefore, when now we expand capacity moving forward, I think there will be some pressures on the margins.

Pramod Kumar: Okay. And sir, my second question pertains to the reception to your recent product launch like Brezza, Baleno, and the acceleration in Ciaz off late. A lot of this has been led by significant market share reversal or gains in urban markets and also breaking the price ceiling with Ciaz in a big way and becoming the segment leader. Just wanted to understand what exactly has worked in your favor that all of a sudden, products which were or price points where we never had a very strong footing earlier or the major brands from Japan or Korea had a stronger standing, we have started to take market share back from them. I just want to understand what exactly has changed in terms of the customer response and what has led to that and how sustainable that is in terms of the years ahead, as competitor also steps up and brings in more launches?

Rahul Bharti: Thanks Pramod for that question. I think it is finally the product excellence that matters. And behind product excellence is a lot of technology and maybe more than technology, the quality,

the adherence to standards that matters. So, definitely the customer can see a promise in the products. That is one. Second is your relationship with the customer in the field. So, part of the relationship is the sales experience, which we enhance through the NEXA. And the rest is service experience. So, when a customer gets an assurance that even after you sell the car to him, you are there to take care of him. The service satisfaction is the best in the market. He obviously gets that confidence in the brand. So, product, sales experience and service confidence.

Pramod Kumar: Fair enough sir. And finally on Baleno exports, last time when we had checked on the demand in the end market, you had said it is too early. Now it has already spent some time in some relevant markets, how should one look at the sustainability of exports in Baleno especially?

Nikhil Vyas: our plan for Baleno exports remains same which we had indicated earlier.

Pramod Kumar: But, Baleno is kind of capacity constrained. So, if capacity were not a challenge, would the export number also would have been higher?

Ajay Seth: Too early. Let us give it a little more time. It is getting established in various markets. But we are very happy with the performance that we have seen so far. No negative feedback has come from anywhere. But, give it a little more time. And if it does well, then maybe we will and once we increase capacity, we will know, we will examine that as well.

Pramod Kumar: Great sir. Thanks a lot and wish you all a Happy Diwali. Thank you.

Moderator: Thank you sir. Sir, our next question comes from Mr. Yogesh Agarwal from HSBC. Please go ahead sir.

Yogesh Agarwal: Hi sir. Happy Diwali to you all as well. Sir, I have just one question on Baleno, Brezza, have you been able to increase the capacity for both the vehicles? And also, is the bottleneck more on your end or on the supplier end? And therefore when the Gujarat plant comes up, would you be able to allocate substantial part to these two models there?

Nikhil Vyas: Since the launch of Baleno we have been increasing the capacity. Now the capacity of Baleno is somewhere close to around 15000 units a month. And for Brezza, It started with around 7000 units a month, now we have reached to a level of 9000 - 10000 units per month. And after the start of the Gujarat production, Baleno capacity will increase.

Yogesh Agarwal: Okay, great. Thank you Nikhil.

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

Ameen Pirani: Good afternoon sir. Thanks for the opportunity. Sir, first of all, could you just quantify the discount number for this quarter?

Ajay Seth: We were at 16,100.

Ameen Pirani: Okay. And sir, in terms of your raw materials, while there would have been a negative impact from currency as well as commodity, like you mentioned and while pricing appears to be similar on a sequential basis, you still have managed to contain or even reduce your raw material cost. So, are there any specific internal efforts that you have done or something else that has helped you?

Ajay Seth: We have always been saying that there is cost down program that we run every year, which is a sizable program and that includes gains on account of productivity, value engineering, value analysis etc. It's always a sizable program. And the endeavor is always to ensure that we have a significant reduction on that count on material which partially gets offset with the commodity price increases and the forex, as I had mentioned in my first question that I answered that the adverse items that we had this time

were the forex and the commodities, which we have been able to more or less offset with, one, lower discounts and second, the cost reduction that has actually happened.

Ameen Pirani: Okay. That is helpful sir. And secondly, could you give us the number for royalty and also exports for this quarter?

Ajay Seth: Royalty was at 6.1% of our net sales and the amount was at 1,078 crores.

Ameen Pirani: Okay. And sir for exports?

Ajay Seth: Exports number in this quarter was 1565 crores.

Ameen Pirani: Okay sir. Thanks a lot sir. That is all from my side.

Moderator: Thank you sir. Sir, our next question comes from Mr. Mahantesh Sabarad from SBICAP Securities. Please go ahead sir.

Mahantesh Sabarad: Congratulations for a very good set of numbers. My question pertains to the other income portion. It has been substantially higher, when we look at both from sequential basis as well as year on year basis. So, can you offer more clarity on what has happened in terms of that large other income growth?

Ajay Seth: The reason for other income going up in this quarter is largely to do with the interest rates coming down. And as per the new standard under IND-AS, you are required to fair value your investments. So, when we fair valued our investments, there was an additional capital gain of close to about 300 crores that accrued.

Mahantesh Sabarad: But you did that in first quarter as well, right sir?

Ajay Seth: No, it was deferred from the end of first quarter till now, the decline that we had in the interest rates has resulted in an accrual of the additional capital gain, which is primarily the reason for the excess.

Mahantesh Sabarad: And that is 300, how much sir?

Ajay Seth: Close to about 300 crores. Sorry, in the normal course our other income would have been about 500 crores. Whatever you see excessive, which is 786 crores is on account of the capital gains, because of the interest rate reductions.

Mahantesh Sabarad: And secondly, since we have moved to IND-AS accounting and we are now gross of the sales with excise duty. So, I just wanted to understand, is there a difference between excise duty paid on sales versus excise duty booked on production? Is that difference, is that significant to make note of?

Ajay Seth: There is absolutely no difference. There is absolutely no difference. Excise duty is paid on the basis of the sales that we make at specific rates for small and big cars. So, there will be no difference at all.

Mahantesh Sabarad: No, I mean the produced vehicles which are not yet excised out from the factory gate.

Ajay Seth: That continues to be in stock at cost. So there, there is no duty anyways. You pay duty when you are actually dispatching your car.

Mahantesh Sabarad: You may have stocks even in your stockyards for example, outside the building

Ajay Seth: all cars that we sell to stockyards are billed to dealers. So, they are actually dealer stocks, not our stock.

Mahantesh Sabarad: Right sir. So, this whole gross margin improvement, there is no structurally the excise effect actually, then it is more the mix effect kind of think that we can see?

Ajay Seth: Mix, all kind of plays, mix and volume, operating leverage. So, there will be variety of things in it.

Mahantesh Sabarad: And sir, on the other expenses, since your exports jumped up significantly for the quarter. Normally speaking, your other expenses should have also grown, because your dispatches, the local dispatches, that means the cost of the port is something that you bear, should have gone up. But, that doesn't seem to be materially improving. We don't have those numbers obviously, but can you add some color on to that?

Ajay Seth: To the extent of expenses, port expenses, which means expenses from the factory to the port, the expense will be exactly in proportion of the number of cars that we have sold. But then on the other counts, like advertisements and other areas where you are getting operating leverage benefits, your expenses are significantly coming down. So, one is being offset from the other. What you really see is that while on this count the expense would have gone up in the same proportion as last time, but on the other count the expenses are actually coming down.

Mahantesh Sabarad: And which are the major heads where it has come down?

Ajay Seth: Administrative expenses, employee cost, so these are some of the big ones, depreciation. These are some of the big ones where you find significant improvement in last year versus this year.

Mahantesh Sabarad: So, there are number going down, it is not just leverage.

Ajay Seth: So, absolute number may not be going down. Absolute numbers would be either same or it could be slightly higher.

Mahantesh Sabarad: Sir, Costs are lower sequentially.

Ajay Seth: I have said, as a percentage they are lower. Advertisement and selling for example is 1.6% compared to 2.4% last year. Employee cost is about the same at 3%. Manufacturing and administration expenses are at 4.1%, compared to 5%. So, all this is the operating leverage benefit that we are getting.

Mahantesh Sabarad: Yeah, thanks for explaining that sir. Thanks. My questions are over.

Moderator: The next question comes from Mr. Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Sir, if I look at per unit ASP for exports on a quarter on quarter basis, then it has dropped from Rs 520,000 to 440,000. So, is there anything on the export mix side or is this lower spare part exports or something like that?

Ajay Seth: I think it is largely dependent on the mix that we are selling, that will be the major constituent. So, based on the mix I think is what it comes to. So, I think that would be the reason. It should not be any other reason.

Sonal Gupta: Okay. And sir, I missed the diesel volumes for this quarter.

Ajay Seth: Diesel volume for the quarter was at 125,339 units.

Sonal Gupta: Okay. And just on Gujarat production, you said that Baleno will be manufactured at Gujarat as well. So, would it make sense to have dual sort of production bases, because doesn't that increase your tooling cost etc.?

Ajay Seth: Today in Haryana we are choked for capacity. So, we have to expand. So, the natural thing is that when we increase our base and more production, then Gujarat comes handy for whatever increase is required. Now, when it comes to things like tooling and all, yes, you will have to duplicate tooling to some extent. But please remember that the entire plant and machinery on which we invest in Gujarat is covered under fiscal incentive. So, you can recover whatever you invest there over a period of time by way of fiscal incentive.

Sonal Gupta: That doesn't really change even under the GST regime?

Ajay Seth: Except for the fact that earlier you were getting the benefits of VAT, with GST now, you will get the benefit of S-GST over a longer period.

Sonal Gupta: Okay. But, as a policy would you think that it is prudent to have one base or you think that dual is, depending of course if you are having very high volume model then maybe it makes sense?

Ajay Seth: It depends. You will have to go product by product, but it makes a lot of sense to have one product at two locations, because there is significant amount of logistics cost that you can save. For example, your exports from Gujarat would be closer to the port, that is one advantage, plus the supply that you need to make to the Western part of the country would be closer to Gujarat or the Southern part of the country would be closer from Gujarat, so you save on the transportation and the logistics cost as well. So, you will have to go product by product and what is the penetration of a particular product in a particular region and then take a call.

Sonal Gupta: Okay. And sir, the last question on commodity prices, there was a sharp increase in the beginning of the year on steel prices. So, has that impact completely flowed through our numbers? So, our raw material cost right now reflects those price increases on the domestic steel price, which were there or has that completely through?

Ajay Seth: In the first half, yes, what we have shown you in the first half gets reflected. But, steel I think we are contemplating some more increase that may come in moving forward. Other commodities are, we think we are all okay. But steel, we could see some more price increase in the second half.

Sonal Gupta: And sir, the last question is on lower staff cost, on a quarter on quarter basis, what is the reason for that?

Ajay Seth: Two reasons. One of course, you are seeing the benefit of operating leverage,

Sonal Gupta: I am saying in absolute terms. The staff cost has dropped from 579 crores to 519 crores.....

Ajay Seth: So, if you see last year also and in similar period, there was a drop, it is also 3% of the net sales. So, what we do is that, we normally make provisions for the portion of the salary, which is paid off in the second quarter every year. And if there is any excessive provision, that is written back. So, I think the impact that you see now and as well as the same period last year is on that count.

Sonal Gupta: Okay. So, it will sort of come back in the coming next quarter.

- Ajay Seth:** That is right.
- Sonal Gupta:** Okay sir, great. Thank you so much for taking my question.
- Moderator:** Sir, our next question comes from Mr. Jinesh Gandhi from MOSL. Please go ahead sir.
- Jinesh Gandhi:** Hi sir. Congrats on a great set of results. My question pertains to the festive season sales, any sense on how the festive season sales have shaped up overall in the rural markets?
- Rahul Bharti:** So, the season is shaping up well. And since the start of the festive season, we have seen an increase of about 15% to 18% year on year.
- Jinesh Gandhi:** Okay. And this was broad, any sense on the rural market, where it has made a comeback after last quarter flat volumes?
- Rahul Bharti:** Some green shoots of recovery in the rural market are visible. And we hope with the monsoon and the harvest season, we will see some more of it.
- Jinesh Gandhi:** Okay. And any idea about the rural sales growth in this quarter?
- Rahul Bharti:** It is picking up.
- Jinesh Gandhi:** It is picking up, okay. And lastly on the price increases, have taken any price increases in this quarter?
- Ajay Seth:** We have taken one I think small price increase in August. That is about it. So, August we have taken a very small price increase. I think basic purpose was to correct all the introductory model prices and a small price increase. That is about it.
- Jinesh Gandhi:** This would be across models?
- Ajay Seth:** On the petrol model, there was no increase in the diesel models. And I think the overall impact of this price increase was something like 30 or 40 basis points for the year.
- Jinesh Gandhi:** Okay sir, understood. Thanks and all the best. I will come back in the queue.
- Moderator:** Thank you sir. Sir, the next question comes from Mr. Kapil Singh from Nomura Securities. Please go ahead sir.
- Kapil Singh:** Hi sir. Congrats sir on a great set of results. Firstly, on the sales, could you give us a sense if there is any pick up in the Government employee sales? What is the proportion right now? How much was it last year?
- Nikhil Vyas:** The Government employee segment is one of the important consumer segments and we have a dedicated team for it, which continuously looks into all the opportunities in this consumer segment. And currently we have seen that there is some traction.
- Kapil Singh:** Any sense of what kind of growth you are seeing, in say, the last one or two months?
- Nikhil Vyas:** It is in line with our wholesale growth.

Kapil Singh: Okay. The second question pertains to capacity. We have seen pretty strong growth and in fact during the festive season we are noticing waiting period of not only Baleno and Brezza, but the other models as well. So, how you guys thinking about capacity going ahead? Is there scope? What are the options available to the company to increase production?

Rahul Bharti: There are not many options available. So, we are not thinking much. We are trying to do as much as possible.

Kapil Singh: So, is a third shift completely ruled out?

Rahul Bharti: At the moment we are not thinking about it.

Kapil Singh: Okay. Thanks. I will come back in the queue.

Moderator: Thank you sir. The next question comes from Mr. Binay Singh from Morgan Stanley. Please go ahead sir.

Binay Singh: Hi team. Congratulations on a very good set of numbers. I have two questions. First is on Gujarat. You have often talked about how Gujarat could put some pressure on the earnings during the ramp up phase. Could you talk a little bit about the short term impact of Gujarat, how long will it last? And secondly, the long term impact that once the full ramp up happens, is the cost of making a car over there going to be lower or on a stabilized basis or similar? That will be my first question.

Ajay Seth: So Binay, to address your first question of Gujarat, it is like setting up any new factory, where you are expanding capacity. Now, there are two things in it. One, that it is being located in a different State. So, it is not in Haryana. Most of our infrastructure so far has been based out of Haryana. So, large vendor base etc. are all out of Haryana. So, two things will happen to start with. One is that, vendors will slowly start moving to Gujarat. So, the key vendors, the heavy component vendors will move in the first phase and then the other vendors will follow suit. So, it will take a while for the bulk of the vendors to move there. So, there will be some inter-State movement of goods for at least a couple of years before it stabilizes. So, that is one bit. So, there will be an element of logistics cost etc., that we will have to look at. And second of course is that, any new plant has depreciation which is much higher than the plant like Manesar and Gurgaon, which have depreciated significantly. So, these two counts. But, I think progressively over a period, when these reach their capacity utilization of close to 100%, I think we will see their cost structures getting closer towards our cost structure. But, the initial pain of couple of years, two-three years would be there till they stabilize, as it will be there in any new capacity expansion.

Binay: When you say close to 100%, that you mean for the phase-I, which is 250,000 units, right?

Ajay Seth: So, what will happen is that by the time we run, we do our phase-I, at least the problem with the vendors should be dealt with, which means most of the vendors would be located around Gujarat by that time. So, in phase-II it is only a matter of them utilizing capacity as we continue to grow. So, it will not be the dual problem of first vendors and then capacity utilization. So, while depreciation could still be higher till we finally expand everything and use everything, but at least the cost structure would be similar to what we have in Gurgaon and Manesar.

Binay Singh: And the second question is on the model cycle. We have had a very exciting model cycle for Maruti over the last two years. And sort of it is coming to a pause, it seems from Ignis. How do you look at model cycle after Ignis? Will the consumer be given as many options, excitement post Ignis also or you think it is going to be more a consolidation phase for the company?

Rahul Bharti: We have mentioned before also, I think the company has to work on a good balance between achieving growth through new models and achieving growth through maximizing sales from existing models. So, we think because of capacity and other issues, maybe insufficient spread of the

NEXA, there is a lot more potential to be exhausted from the existing models and we are also committed to keep launching new models at least one per year in the Indian market. So, we will not let go our market opportunity.

Binay Singh: Just lastly, any first time buyer recovery that you are seeing?

Nikhil Vyas: first time buyers, in the first half of this year have seen some dip.

Binay Singh: That could be more because of; do you think that is an industry phenomena or that is more because, your Alto sales have come off as the percentage sale of your overall portfolio?

Nikhil Vyas: It is difficult to attribute to a particular reason, but job creation in the economy is not happening to that extent, which actually drives this segment growth.

Binay Singh: So, it is not market share loss to Kwid that you are seeing, that it would be the key driver?

Nikhil Vyas: It is primarily the reason which I had just mentioned. .

Binay Singh: Right. Thanks.

Moderator: Thank you sir. Sir, the next question comes from Mr. Ashish Nigam from Axis Capital. Please go ahead sir.

Ashish Nigam: Congrats on a very good set of numbers. My first question was on capacity again. Can you just share the absolute numbers of production that can be stretched to in FY17 and in FY18?

Rahul Bharti: Currently in Haryana we are stretching up to around 1.65 million cars per annum, H2 annualized production, which includes cars for domestic market and exports. We expect to have the first line of Gujarat ready by the end of the fourth quarter this year, which has a capacity of 250,000. And we should give about six months for the ramp up to take place, to full capacity. And after that we have to consider a second line at Gujarat, which is in the planning stage and which obviously also has a lead time. So, these are the figures.

Ashish Nigam: Okay. So, there is any sense of adding a second line? Can you just start with just two lines or do we have to start only with one line in Gujarat?

Rahul Bharti: It is a Greenfield project. We have to definitely start with one line. And actually we have already done that. So, the next line, the first line will come up in a few months from now, so it has to be phase wise.

Ashish Nigam: Okay. Also we have been reading a lot about the new Swift, the new Wagon R and even the petrol variant of the Vitara Brezza. Can you just roughly tell us the timeline of these launches?

Rahul Bharti: We are also reading from the newspapers and the magazines.

Ajay Seth: Ashish, you know that we don't comment on the future products. So, I am very surprised that you asked this question.

Ashish Nigam: I was just trying my luck. Just lastly, just on our CAPEX going ahead, can you please break it up between R&D, marketing infra and the general maintenance CAPEX?

Ajay Seth: So, bulk of the CAPEX would be on account of the new products that we would be launching. And the second large portion would be on the marketing infrastructure. So, this year we are talking about something like 4,500 crores of CAPEX, of which marketing spend would be about 1,000 crores,

new products should be about 1,500 crores and the rest, balance would be between R&D and annual capital expenditure, annual maintenance CAPEX.

Ashish Nigam: Okay. Can we assume a similar number for FY18 as well for CAPEX?

Ajay Seth: We will get back to you once we formalize the numbers. We are now in the process of compiling that.

Ashish Nigam: Okay. Thanks a lot and all the best.

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

Jatin Chawla: Hi. Thanks for the opportunity. First question is, you mentioned that you are planning to increase the Baleno capacity once the Gujarat plant comes in. But, you didn't make any mention on the Brezza, which seems surprising; given that there is no gasoline variant on that and still there is a big waiting period. So, just wanted to get your thoughts on that?

Nikhil Vyas: In fact I mentioned that when we started Brezza, the initial capacity was very less,. And we are doing lot of productivity and efficiency improvement to improve the numbers. And we have now reached to a level of between 9000 to 10000 numbers a month. And we will continue to explore possibility of increasing further.

Jatin Chawla: You also mentioned that you have been able to nullify some of the cost increases by the cost saving measures that you have taken. Would it be possible to quantify the impact of the same in the first half?

Ajay Seth: Jatin, there are so many of them. As we have said that we have a fairly robust program of working on cost reduction on account of productivity, value engineering, value analysis and under each head there will be sizable savings. I don't have the exact numbers in front of me, but there are always the targets that we work with during the year. And the very fact that we have been able to offset the raw material price increases and the forex which saw significant movement from last year to this year, shows that the number has to be significant.

Jatin Chawla: Okay. There is a depreciation change as well that you have done in this quarter. Probably I think we have seen three or four such changes in the last probably ten years, so I just wanted to get a sense on what is driving such frequent changes in the depreciation policy?

Ajay Seth: So, I remember two big changes that we did. One was that when we moved our plant and machinery depreciation to eight years on the prescribed norms of thirteen years or so, which was way back in 2008 or somewhere around that time. That was more to be aggressive on your depreciation policy. But, after that I think this is the second time that we have really changed depreciation for dies. Now this change is to align ourselves with the parent, because the way the model costing and the way depreciation is calculated in Suzuki, we wanted to be aligned to them. And therefore we have changed it from four years to five years.

Jatin Chawla: Thanks.

Moderator: Thank you sir. Sir, our next question comes from Mr. Raghu Nandhan from Quant Capital. Please go ahead sir.

Raghu Nandhan: Congratulations sir. And thanks for the opportunity. On the automatic side, what would be the share of automatics for Maruti and the industry? And what are the expectations for the future?

Nikhil Vyas: Currently our AMT penetration is around 15% in the models, where the AMT option is available. For industry, I believe it is in single digit.

Raghu Nandhan: Diesel hybrid has been very successful in Ertiga and Ciaz. Is there a thought to bring petrol hybrid for these models?

Rahul Bharti: Sorry, I missed the question.

Raghu Nandhan: Is there a thought process to bring in petrol hybrid for models such as Ciaz and Ertiga?

Rahul Bharti: Specific models we won't be able to comment. But, hybridization is a good alternative to diesel at the stage when Bharat Stage VI kicks in. Hybridization can achieve similar kind of fuel efficiency increase or CO2 reduction as diesel and still have the benefit of less particulate matter emission. And so this is an equation that we keep weighing internally and we will have to look at the costs and the viability very carefully in the next few years.

Raghu Nandhan: Sure sir. Sir, generally the bottom that is the base version contributes about 20% of sales and top version contributes another 20% of sales and the mid version is at 60%. How is the break up for the sales in the NEXA channel? Would it be lower contribution from the base versions?

Nikhil Vyas: Currently for higher variant, the proportion is high. But, it may not be necessary that it will continue to remain high for long. It is a value price equation which customer sees before making a purchase decision.

Raghu Nandhan: Sure sir. One last question, on shared mobility, certain studies indicate that each car in shared mobility like Uber or Ola can displace purchase of several private vehicles. Also sales of additional cars for a buyer maybe hit. Do you expect sales to be impacted in the medium term due to the increased penetration of shared mobility for both Maruti and the industry?

Rahul Bharti: In ideal conditions, where security and safety of commuters is kind of assured, then those figures may be possible. But, people still want the comfort and security of owning a car, if not using it much. Secondly, India has a very low level of penetration of cars ownership. So, at least for some time we don't see any major impact of shared mobility. If at all it helps to increase the usage of cars and that is positive for the car manufacturers.

Raghu Nandhan: Sure sir. Thank you very much.

Moderator: Thank you sir. And sir, the last question for the session comes from Mr. Joseph George from IIFL. Please go ahead sir.

Joseph George: Hi, this is Joseph. I have three questions. One is, you gave the royalty number for the quarter at 6.1%. And I noticed that it was 6.5% in 1Q. So, is this sequential decline a result of some currency impact or is it purely because of the mix?

Ajay Seth: So, there is no decline. What we have done is, we have just reclassified. Royalty has an element of cess in it, R&D cess, which actually was getting added on to royalty, which is kind of an administrative expense. So, this is a Government levy that we need to pay, R&D cess. So, we have eliminated cess from these calculations. So, it was actually 5.9 last year, 6.1 now, like to like comparison. And if you were to look at quarter one, we were at the same number as 6.1, no change, if we were to reclassify cess into a different head.

Joseph George: Okay. Sir and the second question I had was, how do you account for discounts? So, to simplify it, if you were to dispatch vehicles in 2Q, but make the retail sales and hence give the discount in 3Q, are discounts accounted for in 2Q when you account it for the revenues or is it on actual cash basis and it happens in 3Q?

Ajay Seth: Discounts are based on the schemes. As and when the schemes are announced and the vehicles are dispatched, based on wholesale or retail as the case may be, the discounts are accounted for on that basis. It is on accrual basis and not on cash basis.

Joseph George: So, for instance, the vehicles which you have dispatched in 2Q, for which revenues are booked and the retail would happen maybe in 3Q, you are saying that the discounts would have been accounted for when you actually dispatch?

Ajay Seth: That's right.

Joseph George: And sir, the last question I had was, the mild hybrid vehicles that you all have, for which the excise duty is lower than the standard rate. We are seeing a lot of other manufacturers come up with similar models. Do you see this lower rate of excise duty or tax continuing under the GST regime?

Rahul Bharti: We think so, but it is a prerogative of the Government.

Joseph George: Okay. So, you haven't received any clear communication yet?

Ajay Seth: Not yet. For GST, I think it is very difficult to receive communication by anyone. I think we will have to wait and watch what the council finally does.

Joseph George: Okay. Alright, thank you.

Moderator: Thank you sir. Now, I handover the floor to Mr. Deepak Jain for closing comments. Please go ahead sir.

Deepak Jain: Thank you Moumita. Thanks, a special thanks to Maruti management for coming on the call. It was very useful for all of us. And thanks to everybody. And wish everybody a very Happy Diwali.

Ajay Seth: Thank you and Happy Diwali to all of you as well.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation. You may all disconnect your lines now. Thank you and have a good evening everyone.

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