Q2 FY22 – Investor Conference Call

October 27, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY22 Earnings Conference Call of Maruti Suzuki India Limited. As a reminder, all participants lines will be in listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing "*" then "0" on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Pranav Ambaprasad from Maruti Suzuki India Limited. Thank you and over to you sir.

Pranav Ambaprasad: Thank you Vikram. Ladies and gentlemen, good afternoon once again. May I introduce you to the management team from Maruti Suzuki. Today, we have with us our CFO - Mr. Ajay Seth; from Marketing and Sales we have Member, Executive Board – Mr. R.S. Kalsi; Senior Executive Director, Marketing and Sales – Mr. Shashank Srivastava; from Corporate, Executive Director, Corporate Planning and Government Affairs – Mr. Rahul Bharti; Senior Advisor, Corporate Planning – Mr. K. Kasahara and General Manager, Corporate Strategy and Investor Relations – Mr. Nikhil Vyas; from Finance, we have Executive Director – Mr. Pradeep Garg; and Executive Vice President – Mr. Sanjay Mathur.

The concall will begin with a brief statement on the performance and outlook of our business by Mr. Seth, after which we'll 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 uncertainty and the risk that the Company faces. I 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: Thanks Pranav. Good afternoon Ladies and Gentlemen, I hope you and your families are healthy and safe. Let us start with some of recent business highlights/ milestones, The most notable aspect this year was a record growth in Exports. Export sales were the highest ever in the Company's history and the figures of the first half this year exceeded the full year sales of last year. We rolled out Maruti Suzuki Smart Finance across India, an industry first initiative. It now covers diverse customer profiles. During the quarter, over 1 lakh loans have been disbursed to customers using this platform. This is a testimony of customer acceptance. With focus to improve customer convenience and experience, Maruti Suzuki rolled out "S-ASSIST" an industry-first AI (Artificial Intelligence) based 24x7 virtual car assistant app. The App is developed by "Xane.AI" a start-up under the company's MAIL initiative to nurture innovation. We extended advanced intelligent telematics technology, Suzuki Connect, for the vehicles in ARENA channel also. Suzuki Connect offers connected car experience to Maruti Suzuki car owners. The Company, launched 'Kam Se Kaam Banega', a campaign to celebrate three decades of leadership in offering country's most fuel-efficient cars. Maruti Suzuki over the years has offered country's most fuel-efficient cars across all segments. Working in close partnership with the parent company Suzuki Motor Corporation, Japan, Maruti Suzuki is committed to promote environmentally friendly products. On employees' front, we are happy to share that many employee families have started living at the newly constructed housing project. Over 180 of the 350 flats were offered for possession. 151 flats of these have already been occupied. The Company organized multiple vaccination camps for employees and family members. We are confident that by the end of this month we will be covering 100% of the workforce. Besides, the Company is also facilitating its value chain partners and business associates in this regard. The Company will continue to observe all COVID-19 SOPs and precautions, be sensitive to the human and social element, build an environment of positivity and keep working hard as its bit in these difficult times.

Coming to the business performance, Q2 FY 21-22 was a challenging quarter because of unprecedented global supply crisis of electronic components. As a result, the Company witnessed a significant disruption in its production operations. An estimated 116,000 vehicles could not be produced owing to the electronics component shortage mostly corresponding to the domestic models.

Coming to the demand environment, post the disruptions caused by 2nd wave of COVID in Q1 FY21-22, the demand started to recover. The enquiry, bookings and retails in Q2 FY21-22 has shown an improvement, however lack of vehicles because of electronic component shortages has impacted the whole-sale volumes. The Company had more than 200,000 pending customer orders at the end of the quarter for which the Company is making all efforts to expedite deliveries.

In Q2 FY21-22, the sales in rural market improved in comparison to the urban markets, as a result the penetration of overall sales in the rural markets increased to over 43% in Q2 FY21-22. The customer acceptance towards CNG vehicles have increased and in Q2FY 21-22 the penetration of sales from CNG vehicles in overall sales stands at 17.8% up from 11.2% in the same period previous year.

This quarter was also marked by an unprecedented increase in the prices of commodities like steel, aluminium and precious metals within a span of one year. The Company made maximum efforts to absorb input cost increases offsetting them through cost reduction and passed on minimum impact to customers by way of car price increase.

Coming to financial results:

Highlights: Q2 (July-September), FY 2021-22

The Company sold a total of 379,541 units during the Quarter constrained by a global shortage in the supply of electronic components. Sales in the domestic market stood at 320,133 units. Exports were at 59,408 units, the highest ever in any quarter. During the same period previous year (Q2 FY 20-21), the Company clocked a total sale of 393,130 units including 370,619 units in domestic market and 22,511 units in the export market.

During the Q2 FY 21-22, the Company registered Net Sales of INR 192,978 million compared to Net Sales of INR 176,893 million in Q2 FY 20-21.

The Net Profit came down to INR 4,753 million in the Q2 FY 21-22 compared to that of INR 13,716 million in Q2 FY 20-21.

Highlights: H1 (April-September), FY 2021-22

The Company sold a total of 733,155 units during the period. Sales in the domestic market stood at 628,228 units. Exports in this half year were at 104,927 units. During the same period previous year (H1 FY 20-21), the Company clocked a total sale of 469,729 units including 437,646 units in domestic market and 32,083 units in the export market.

During the period H1 FY 21-22, the Company registered Net Sales of INR 360,965 million compared to Net Sales of INR 213,668 million in H1 FY 20-21. The sales of FY20-21 were affected due to COVID related disruptions.

The Company made a Net Profit of INR 9,161 million in the H1 FY 21-22 compared to that of INR 11,222 million in H1 FY 20-21.

Having given you a brief on the financials and the overall Company strategy, we are now ready to take any questions, feedback and any other observation that you may have. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the Q&A session. We have a first question from the line of Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: Couple of questions relating to the P&L basically, if you can help us understand what has been the hit to the P&L for the Gujarat arrangement wherein we kind of compensate them for the fixed cost as well and for production volumes have taken a knock and there is a new capacity which just got added there, how much has been the excess burden what Maruti is carrying at this point of time, which is purely because of the Gujarat arrangement, if you can just help us understand and how do you see that kind of reversing out as the production ramp up?

Ajay Seth: The impact of Gujarat is on two accounts, one it’s basically the new plant which has come up, it was capitalized in April. So, there’s an impact of depreciation, that’s been charged on that plant. And the second is the fixed cost that’s being incurred on that plant. Obviously, because of chip shortage, the utilization has not been to what we had expected. Therefore, the fixed cost that we are carrying on these two accounts, which is depreciation, where the run rate or the new plant depreciation would be about INR 500 crores a year. So, you can divide it to take a quarterly figure and the fixed cost I don’t have the fixed cost number right away with me, but there will be a moderate amount of fixed cost although which has been incurred there, but these two impacts are the ones that will negate ones the volumes pickup.

Pramod Kumar: And sir, just to clarify both these expense lines will be sitting for you at the operation level, in terms of the EBITDA or the depreciation ideally should be bill back to you right in terms of the cost of the car. So, how does the depreciation accounting work here, does it come above EBITDA or below EBITDA?

Ajay Seth: Depreciation comes under the other expenses, because the way accounting is done, all other costs which is material and overheads they are part of material cost, but depreciation is treated as lease expenses, which is part of other expenses, as you see in the SEBI format. And we club it under manufacturing and other expenses in our overall reporting.

Pramod Kumar: And sir second question pertains to demand and in that context where would you put your dealer inventory, because I'm assuming that dealer inventory should be next to nothing, I just want to confirm that, and order backlog of over 200,000, by when do you see that getting kind of fulfilled. In a way, I am also trying to get it so how do you see the production for the second half of this year in terms of basically what happened, what went wrong in the September quarter?

Ajay Seth: We fortunately have our Senior Executive Director, Mr. Shashank Srivastava, I request him to answer this.

Shashank Srivastava: So, the current dealer inventory is roughly around 60,000 cars, including our commercial vehicles. And of course, it's expected with the festive retails going up, it will probably come down a little bit from there. As regards the second half, it's a little uncertain from the supply side perspective. And therefore, we are unable to give you an exact number of what the production or the sale would be in the second half. Yes, you are right, we have more than 250,000 bookings pending. But because of uncertainties in terms of supply, it's difficult to predict both the production as well as the exact retails. Thank you.

Pramod Kumar: And Shashank san related to that, will it have further delay in our launch pipeline, because we are running behind on our product launch pipeline. So, I'm just trying to understand it was already a busy launch pipeline what you were supposed to initiate. So, how should one look at the launch pipeline from here on,

Shashank Srivastava: One of the strong points of Maruti Suzuki has been launching new products, which are as per the requirement of the consumer, and that is what we intend to do in the future as well. These launches are actually planned three to four years in advance. So, it's unlikely that the needle regarding that will move based on short term supply situation. Having said that, yes, we have a very strong launch plan in the next few months.

Moderator: Thank you sir. We have next question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Basically, I was looking at the realization per vehicle, which has seen a pretty sharp increase. So, was just trying to understand whether the spare part mix as a percentage of revenue has gone up in 2Q which may also be a factor and whether there was any RoDTEP benefits that came in for the second quarter?

Ajay Seth: So, are you comparing the quarter two of last year with this quarter, or are you comparing sequentially?

Kapil Singh: Sequentially from 1Q to 2Q.

Ajay Seth: Sequentially from 1Q to 2Q increase is not much, it's a small increase. But it gets camouflaged with the spare parts sales, because last quarter we had a significant impact on the spare parts sales which was pretty down. So, if you add that then the impact is much bigger in terms of realization. But, I have these numbers there, so Q1 domestic sales average realization was INR 427,000 and now in Q2 this year, we have an average realization of INR 431,000. So, it moved up by about INR 4,000 which is also in line with net off discount, etc, which is in line with whatever pricing increases would have happened or any change in the mix that would have happened.

Kapil Singh: Got it. And sir was there any RoDTEP benefit also for the quarter?

Rahul Bharti: Yes, there was.

Kapil Singh: Will it be possible to quantify?

Ajay Seth: It's not a very significant amount, there is a RoDTEP benefit that we have got and in terms of quantum it will be not very significant.

Kapil Singh: Okay, sir. Also, second question was relating to just on the technology front if we can throw some light on how do we think of salience of hybrids in India during the current regulatory environment and will they be a relevant technology over next 2-3 years or do we need more support from the government side for hybrids to be relevant, some thoughts on that would be helpful.

Rahul Bharti: So, short answer is yes, to both. There is some recognition from the government already. There is some preferential rate in the GST and some FAME benefit to strong hybrids and plug in hybrids, but we need more. And to your other question, will it be a meaningful mainstream kind of option for the country, yes, we believe so, in the next 5-10 years, at least it will be a very potent option for reducing CO_2. A hybrid does 40% of the job of an electric and it is scalable as it does not need charging infrastructure. We need more benefits from the government.

Kapil Singh: My question was more from a cost perspective whether it will be viable for the customer to go for hybrids at current incentive level?

Rahul Bharti: See, there is a cost to all options which reduce CO_2 drastically. So, even EVs have a cost, it's only a question of relative cost. So, most manufacturers will adopt paths which suit their context, their business segments and their customer segments. So, each manufacturer will have its own strategy and there will be some cost hurdle for any of the options that you consider.

Kapil Singh: Got it and lastly that you expect that cost pressures are fully through or should we expect more cost pressures in the coming quarter?

Ajay Seth: So, there are two parts to it, Kapil, one is of course, it depends on how the volumes now pan out because we've been affected on operating leverage because of volumes, so if volume improves and then definitely we will have benefit. We have seen some softening of precious metals in Q2, but since we get into the lag effect, so we are hopeful that in quarter3, we will see some softening at least for the precious metals if they don't again start moving up. So, whatever action we can take in terms of hedging we will be taking. Unfortunately, aluminum and steel doesn't look good at this point in time. We were hoping that that will also soften but it looks like given the China issue, it looks like that the prices will either be here or may rise again for steel and aluminum. We will have to keep a watch on these developments, we continue to make our own efforts in terms of what we can do with other mitigation plans and cost reduction plans, those efforts are on. But two important things for us would be, watch the commodity prices moving forward and the volumes. The other thing that I would like to also mention is that we did a price increase in first week of September. So, that will be fully absorbed into third quarter as that impact wouldn't have been completely visible in the second quarter. So, that will also help.

Moderator: Thank you. We have next question from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: Two questions from my side. Firstly, on the follow up on margin, can you give us more color on what is the impact of commodity on a sequential basis, because Gujarat was part of quarter1 cost as well. So, incrementally, its essentially commodity hit. And also, you call out this increase in advertisement and promotional spends in this quarter what does this pertain to, given we really don't have launches and discounts are very low in the market?

Ajay Seth: So, effectively the significant impact has been on commodities, as we mentioned that our material costs to net sales ratio has moved up by about 6.4%. Now, that is a huge impact, in spite of the small price increase that we have taken and also the cost reduction measures that we have taken during the period. So, the impact of, so you can imagine that the impact of commodities is much more than this 6.4% increase that you see, this is after netting off all the other measures that the Company has taken. The quarter2 impact is also maximum because the precious metal prices were at its peak in quarter one, and we always get a lag effect of these commodity costs. Therefore, I mentioned that, given the current trend of precious metal cost, quarter3 or moving forward looks better if there was not to be an increase in this. So, we will have to keep watching in terms of where the market moves in commodity. But we will also have to accordingly decide what are the steps that a Company needs to take if commodities either remain here or go up in terms of corrective measures that are required to be taken.

Gunjan Prithyani: And there are no one offs of advertisement and promotional spends that you have mentioned in the presentation, is this a recurring increase in the other expenses?

Ajay Seth: So, in other expenses, if you see there's a bit of a grouping issue, there are some expenses that you see going up because correspondingly, the recoveries are affected in the operating income. So, operating income is up by about INR 270 crores and the expenses are up by about INR 230 to 240 crores. So, it's a grouping issue some expenses have been which have been recovered have been grouped in operating income and expenses has incurred have been shown in other expenses.

Gunjan Prithyani: Okay. These are the freight related typically which get captured.

Ajay Seth: It would be development expenses; freight related these kinds of things.

Gunjan Prithyani: Okay. Second question I have is on the whole emission or CO2 norms which you briefly touched upon. Now, if you can talk a bit on the CAFE 2 norms and the RDE norms which are more imminent in the next two years, any clarity on the cost impact or our approach to comply with the same and more importantly if I directionally look at the emission corridor it is bound to turn more stringent in the next phase as well. Whether it's at FY 27 or so, how are we thinking on our product, be it electric, hybrid how should we think about the change in powertrain over the next 3-5 years with these emission norm changes and also given the fuel prices have been rising so some thoughts on this will help us from next 3-5year perspective.

Rahul Bharti: Okay. On the fuel price increase, how's the market responding, I'll request Head of Marketing and Sales Mr. Shashank to respond on the other two questions I'll take. See there are two broad regulations which are coming up. One is the CAFE phase2 and the second is BS-VI phase2. BS-VI phase2 involves a clause on real driving emissions, because of which we think there will be an impact mostly on diesel powertrain cost to comply with that. So, on CAFE also different manufacturers will have different strategies of meeting it, because there are so many options of reducing your CO2 output. Maruti is positioned the best because we have the least CO2 emission as a portfolio. And since it is just around the corner, we are expecting it from 1st of April 22 we have to meet the norms. And in terms of the powertrain the options that you talked about. So, while there are some EV launches, but the volumes are quite miniscule, and they don't add meaningfully to the CO2 reduction. So, we need some technology which addresses the mainstream for example, natural gas, it does a 25% CO2 reduction and is scalable across India and the government also wants it. It's a clean fuel, there is no particulate matter, its customer friendly, the market seems to absorb it well. So, that is why we are pitching on natural gas. Hybrid electric vehicles are also very good because they don't need charging infrastructure to scale up, they have some cost impact but it is lesser than that of EVs and similarly they have about a 40% CO2 benefit. So, this churn will happen in most car companies in the next 5-10 years. And we have to work with options which are best for the customer, and which gives us good cost efficiency also. So, on question related to market impact because of increase in fuel prices may I request Shashank san.

Shashank Srivastava: Yes, so directionally of course increased fuel prices increase the cost of running, and that's a negative as far as demand is concerned. However, what we have found is, that the demand for the CNG vehicles have increased dramatically, possibly because of two reasons. One is increased gap between the CNG fuel price and the gasoline diesel price, which means that the cost of running for CNG roughly around INR.1.60-Rs.1.70 per kilometer against INR. 5 per kilometer for a diesel or a petrol. So, that is one reason why it has gone up. And the second reason is, of course because the CNG infrastructure has dramatically spread. Thanks to support from the government. Now, we are covering almost 250 cities with 3800 odd stations as against just 3-4 years back of about 1400 stations covering 150 cities. So, directionally I think that will continue.

And as Mr.Bharti explained going forward, the mix of hybrid and CNG is going to help and Maruti is very well placed as regards that.

Gunjan Prithyani: Thank you, this is very helpful. Just if you can share the discount and royalty number and I'll join back the queue.

Ajay Seth So, royalty for the quarter was at 3.5%. In terms of royalty value, it was INR 670 crores. And discounts in this quarter were at INR18,567. It was up compared to the first quarter this year. First quarter was at INR 13,911 and in the same period last year, our discounts were at INR 17,310. So, discount was slightly up compared to last year and about INR 4,000-5,000 higher compared to the first quarter.

Gunjan Prithyani: That must be due to higher retails, I'm guessing.

Ajay Seth: That's right.

Moderator: Thank you. We have next question from the line of Pramod Amthe from InCred Capital. Please go ahead.

Pramod Amthe: Sir, couple of questions. One is, you have seen a very strong export traction, is there any geography mix change compared to traditionally used to export because new products are added up?

Rahul Bharti: So, we've got some very good response in exports, we have more than doubled our volumes. The biggest gainer was Africa, so half of the volume is from Africa and 1/3rd of the volume is coming from South Africa alone, in Q2. And this is partially because of the Jimny and partially because of increased distribution network there. Thanks to our global partner, Toyota's network. And the best part is we think it is sustainable. The other markets have also done well, there's a global recovery also from COVID. So, that macro tailwind, also helped us and geographies like Latin America, were also good, Chile, Bolivia, Colombia, and North African countries like Egypt they have performed well.

Pramod Amthe: Thanks Rahul. And do you see more products joining in a similar queue, with this success, which you are seeing with Jimny in the next three-year, five-year plan?

Rahul Bharti: Let's keep the excitement.

Pramod Amthe: And the second question is with regard to demand, considering the fact that we have seen unprecedented price hikes for cars. So, how are you looking at customer behavior, are you seeing any bookings being cancelled or customers downgrading the same or what are the solutions you're planning to offer so that he will continue to remain in your basket?

Shashank Srivastava So, if you look at the increase in prices, you're right there has been an increase overall in the industry and for Maruti Suzuki as well. As you know, we have had three price hikes this year, the demand seems to be stable. In fact, if you look at the average enquiry or the booking levels have actually gone up. And that got something to do with the change in consumer preference for personal mobility, against shared mobility or public transport. What are we going to do about it and have we seen any changes segment wise, we do see segment wise changes but it may not entirely be related to cost of acquisition. The entry hatches have gone down a little bit, they are now about 10% of the market as against 11% two years back, SUVs have gone up especially the Entry SUV and the Mid SUV. So, there seems to be a preference not just based on the economics or the cost of acquisition, but also on the design preference and that's what we see, going forward also we predict a similar sort of movement in the SUV sector. And yes, we are watching that space very carefully that's one of the spots which we shall look at very carefully going forward.

Moderator: Thank you. We have next question from the line of Raghunandan from Emkay Global. Please go ahead.

Raghunandan NL: To Shashank sir, on order booking can you speak about customer segments as demand is robust and which segments where demand is relatively on the weaker side?

Shashank Srivastava: Yes, so I just mentioned if you look at the overall industry level, Entry SUV, Mid SUV, the MPVs they have gone up, the sedans have gone down a little bit, premium hatches have gone up, entry hatches come down just a little bit. So, that is overall, if you're talking of Maruti Suzuki, we have seen very strong vehicles not just in terms of the segment, but also in terms of the fuel type, CNG vehicles I mentioned it a little while earlier as well. There the demand surge seems to have been huge. And we also continue to have waiting periods actually across the segments. And that's because as we have had a little bit of erratic production because of the semiconductor issue.

Raghunandan NL: Thank you Shashank sir, but I was referring to in terms of the salary class, business community or the first-time, replacement and recently the IT sector has been doing very well. So, if you can provide any color as to which type of customers like where you're seeing the better mix for the demand share and order bookings?

Shashank Srivastava: If you divide those segments Of course the one, the earlier answer pertains to the type of vehicle segments. now you're also asking about demographic, the type of buying itself. So, the first-time buyers have remained pretty steady. For its roughly around 40%45%, -46% that has been. Secondly, the replacement buying which was earlier 26%, a couple of years back has come down to about 19.6%. But it's slightly up over last year, the additional car buying has gone up from about 30% in 2019-20 to about 35.2% in this year. So, this is by the buyer type, if you want of course we have many other types, not sure whether we can go through the entire list. But the average age has come down a little from about 40 years to about 38.5 now for Maruti Suzuki vehicles. Average MHI actually have gone up a little bit and if you're talking about those salaried business, self-employed type of consumers, we've seen a drop as far as the salaried consumers are concerned over last year, last year it had gone up suddenly from 43% in 2019-20 to 49% in 2020-21 it has drop back to that 40- 43% level and the business class customer has actually gone down from about 33% in 2019-20 to about 29% now. So, that is the roughly the breakup if you want in terms of the occupation. I am sure you would like to know about the gender percentage also, it has remained steady.

Raghunandan NL: Thank you Mr. Shashank. My second question goes to Mr. Ajay Seth, sir in first half the CAPEX is around 15 billion will the full year CAPEX be lower than the earlier expectation?

Ajay Seth: So, the CAPEX will be what we had mentioned earlier, which is 4,500 crores but on top of that, we've also put in an additional amount of about INR 2,200 crores which could be possibly on any further expansion of land that we are contemplating. So, there could possibly be a total expense of about INR 6.700 crores for the year and expense CAPEX is going as per our plan at the moment.

Raghunandan NL: Okay, so if I understand correctly a full year FY22, INR 6,700 crore, of that only INR 1,500 has been spent in the first half?

Ajay Seth: That's right**.** This what was planned in terms of cash flow and that's been done in the first half in the second half we have a plan of spending the balance amount.

Raghunandan NL: Thank you sir. This is very helpful, if you can just share data points from Gujarat production like exports and spares that will be helpful.

Rahul Bharti: So, exports in Q2 the realization was INR 2,900 crores and in H1 it was about INR 5,188 crores.

Ajay Seth: Gujarat production is 120,000 for this quarter and 96,000 in quarter1

Raghunandan NL: Thank you sir. And could you share the spares number as you said realization between Q1 and Q2 partly the reason is spares led to increase.

Rahul Bharti: We will give you the figure after sometime.

Moderator: Thank you. We have next question from the line of Amyn Pirani from JP Morgan. Please go ahead.

Amyn Pirani: First question is more of a clarification, you mentioned royalty of 3.5%. Does this include the royalty for the Gujarat production or is it just what Maruti Suzuki is producing?

Ajay Seth: So, when I talk about royalty it is a combination of both MSIL and Gujarat.

Amyn Pirani: Okay. Because this number has come down quite drastically from 4Q of last year, even last quarter it was lower. So, has there been any significant changes in any of the agreements with Suzuki or is that a mix issue, can you help us understand?

Ajay Seth: We have been telling you for quite some time that as the models move into the rupee formula and that they kick in with the discounts that are applicable on completion of certain volumes, the royalty rates will come down and they have been progressively coming down. Now, all of our models have moved into the rupee formula. And also, many of them are now under the discount formula, because they have done more than that desired numbers for lower rate**,** and hence the combination of the two, resultant royalty is now lower than 4%. So, it hovers around 3.5% to 4%, depending on the mix, and depending on the model.

Amyn Pirani: Okay. And whenever new models come in, then obviously they will still be on rupee formula, but they will not get the discount benefit?

Ajay Seth: Yes, when we complete certain volumes, we will start getting discounts.

Rahul Bharti: Which is why we are saying below 4%, broadly 3.5% to 4%

Amyn Pirani: Understood that's helpful. Second question was, again, some clarification on the Toyota collaboration. So, the exports, you've mentioned that there is some benefit from the Toyota dealership network. So, is this being sold under Toyota branding, in South Africa like you are giving the Baleno and the Brezza to Toyota here, is it the same thing which is happening or is it under Suzuki brand?

Rahul Bharti: So, basically, it's the channel there, which is a major advantage in geographies like Africa, particularly South Africa. So, the major benefit is of the distribution network. Plus, there's a global recovery also that has happened in many parts of the world. So, that has also helped. Jimny also, has supported the growth in exports.

Bhavin: And just one last thing on the Toyota partnership. So, based on what we know and please correct if I'm wrong, you are currently giving Baleno and Brezza and you will be giving Ertiga and Ciaz models to them in the future and Toyota will be making a SUV or MPV in their India plant and giving to you. Is that understanding correct?

Rahul Bharti: So, what we can confirm to you right now is the current which you mentioned about Baleno and the Brezza. And whenever any new project comes about, we will inform you.

Moderator: Thank you. We have next question from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: My first question pertains to the semiconductor shortage. Today's media article suggests that semiconductor shortage is now getting addressed at Maruti level so can you confirm that or are we still seeing continued challenges like we saw in September and October?

Shashank Srivastava: So, as we had informed to the stock exchange for September, we said production will be down 60% from plan. For October we announced at the beginning that the production would be around 40% down from the plan. So, it's getting better and as we discussed earlier in the day, probably November would be better than October. However, the dynamics are still unclear because it's a global issue. And there's a whole lot of supply chain involved in this globally. So, forward projection of when it will become normal is a little difficult to state at this moment.

Jinesh Gandhi: Right and Shashank san regarding the CNG being very strong, with expected increase in CNG prices due to regulatory changes. Do you expect softening in demand on CNG because of price increases, or given that gap will still be much better, CNG should do better?

Shashank Srivastava: So, the gap still exists there is a huge gap, we have petrol, diesel roughly around INR 105-110/litre range in most of the states. CNG, still in still in that broad range of about INR 48-57 /kg. So, there's still a big gap, the efficiencies for CNG is also much better. So, the cost of running around INR1.70 per kilometer is substantially lower than the INR.5 per kilometer that you get for diesel and petrol. So, that gap is likely to continue and that means that there would be a positive trend towards CNG even going forward.

Jinesh Gandhi: Okay. And last question to Seth Sir with respect to the commodity cost inflation. So, in this quarter vis-à-vis first quarter impact would be very small about 150 basis points or it's higher than that?

Ajay Seth: It will be higher than that, because there has been an impact compared to the first quarter. It will not be as steep as it was the first quarter, but it will be in the vicinity of 250 basis points.

Jinesh Gandhi: Got it. And price increase in September was about 1%?

Ajay Seth: Price increase that we did on average was about 1.9% of ex-showroom prices.

Moderator: Thank you. We have next question from the line of Aditya Makharia from HDFC Securities. Please go ahead.

Aditya Makharia: This is Aditya from HDFC Securities. So, just wanted to know on flex fuel, the government is pushing that very aggressively. So, how does that work, does it need a separate engine, or you can just sort of customize your existing products. And secondly, on the Jimny, there are some reports that it will be launched in next year second half, so then that sort of 12 months away even from here on. So, could you give some more qualitative comments on the same. Thanks.

Rahul Bharti: Aditya, I'll try to answer the flex fuel question. So, the Ministry of road transport is quite enthusiastic about flex fuel for three reasons, one it reduces oil imports, second, it reduces carbon emission and third, it will help to get farmers better realization for their crops. So, we are also looking at this option quite seriously. As of now, we do not know the technology we are studying it, but we are open about it, how it works is that any fuel you fill into the car, whether it is 100% gasoline or 100% ethanol or anywhere in between the car runs on the fuel by adjusting itself to the characteristics of the fuel. So, we are trying to understand, it is a mainstream option in Brazil. And the only issue is we do not know how much the market will be, it might be limited in some states or some areas. So, we have to study that option along with the carbon footprint of such vehicles. And accordingly, we will take a call. Your other question was about the Jimny, I will request Mr. Shashank to answer.

Aditya Makharia: Just one clarification, it is still 1-2 years, away right? it's not in the immediate term?

Rahul Bharti: No, more than that, in the auto sector any product development lead time is four years. We know that very well. So, we cannot have something so soon.

Shashank Srivastava: So, as you know the SUV segment has been growing dramatically. And one of the segments is the lifestyle type of SUV. This is a segment which we have been studying very closely. If you recall in the auto expo, we had displayed Jimny to get consumer feedback. So, we are during that study very closely, looking at the market, and also taking some feedback from potential consumers. And as in when we finalize that plan, we will definitely let you all know.

Moderator: Thank you. We have next question from the line of Ronak Sarda from Systematix Shares. Please go ahead.

Ronak Sarda: The first question to Shashank sir on the CNG side, one if you can help us understand, I'm assuming the waiting period is one of the highest in CNG variants. So, what kind of customer profile are we seeing coming to CNG and related question is, are we planning to increase the capacity both at Maruti and the vendor end?

Shashank Srivastava: Yes, so we have been studying that consumer profile for CNG. It is not really different as you know, we have CNG in eight of our models out of the 15 that we have. So, here we haven't seen any big difference in terms of profile across the different criteria whether buyer type or the occupation wise or the usage wise. So, it does appear that almost all consumers in our country are quite conscious with the running cost, and which is what is the very positive thing about CNG usage. On your second question of the volumes, the volumes for CNG for Maruti Suzuki have been increasing dramatically, roughly about 75,000 units /year till 17-18 ~105,000 units in each 18-19 and 19-20, 158,000 units in 2021 and this year, we are projecting around 300,000. So, yes, you are right, there would be pressure on the capacity but I'm sure our supply chain guys are working on it to increase the capacity in line with the projections going forward. Going forward the projections are even higher.

Ronak Sarda: Right. And a related question is, how does the resale value of the existing pool of CNG vehicles have behaved, because they were earlier concerns, how the deterioration of vehicle is much larger in a CNG fuel option, so if you can just help us understand over the last one year, how has the resale values behaved in this segment?

Shashank Srivastava: Yes, it's a great question. And the reason I say that is, because there seems to be two types of CNG vehicles, which are coming for resale, one is the factory fitted types, and the other is the retrofitted types. The retrofitted CNG which are coming in the market have that problem that you're referring to, because there are concerns about safety of retro fitment, there is concern about the engine, the life and the maintenance cost and that was actually also one of the fears which consumers had when the retro fitment was being done, but when the factory fitted CNG vehicles, there is no such concern and the used car prices for CNG is actually a little higher. Because remember, now the gap between a CNG vehicle and the corresponding petrol vehicle is around INR 90,000 and I am talking of the new car. So, that is reflected also in the used cars.

So, we do find that the factory fitted CNG, the used car prices hold quite strongly. But yes, for retrofit vehicles, it does drop.

Ronak Sarda: Sure. And the second question to the team on the production side. If I study your monthly numbers, we've seen in terms of appropriation of volumes, exports and sales to the other OEM have remained largely stable month-on-month while the overall domestic volumes have seen a very sharp cut as the semiconductor issues have cropped up. So, if you can help us understand how do we see the overall vehicle appropriation and how does that change over the next quarter or so?

Rahul Bharti: See, fortunately the semiconductor issue did not affect export sales much and we were able to largely meet the market demand because those particular semiconductors were not used in those models with those specifications. So, that's the reason, OEM is a small volume that was in proportion. But we hope we don't have; the larger thing is to try to get more semiconductors so that this problem is behind us.

Ronak Sarda: Sure. And the second part to this was, we have heard the OEMs building inventory to ensure whenever the semiconductor supply ramps up, the overall production numbers could be higher, is that the feasible option or how does the assembly line change or do you think once the overall issue normalizes then only the overproduction can ramp up, just a thought on if we are building up partly built inventories or something like that?

Shashank Srivastava: Yes, actually it's an option if we know that the future supply of components is assured, which in this case is not true. So, you can theoretically have semi-finished vehicles and complete them once you receive the components, and you are right, some of the OEMs might be doing it. But the thing is that one you have to store the vehicles for a long period of time. So, unless you know that the components will be available, definitely, this may not be exactly a feasible option. But if some manufacturer may want to take a chance and keep them in that stage so that when the component comes they can be completed.

Moderator: Thank you. We have next question from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Sir could I get the retail volumes for the second quarter?

Shashank Srivastava: For Maruti Suzuki, remember these are estimates because while the figure for Maruti Suzuki is known but for the industry it might be an estimate. So, for Maruti Suzuki Q2 retails were about 385,000 units.

Sonal Gupta: Okay. And in the export point, since you're selling a lot through the Toyota network as well, I just want to understand how does the pricing work there in the sense that one is selling to them from India so we don't really have any Forex risk. And the second thing is given the huge commodity cost increase, are we able to pass that on or even there you would be seeing that margin pressure and the prices will revise with a lag?

Ajay Seth: So, in case of exports, we do take into account any commodity price increase that's taking place and we do make corrections so that periodically to ensure the margins are protected. And also, the exchange rates will have something to play on price depending on what rate we had contracted and what rate we actually ended up supplying them at. So, a combination of the two, but we make sure that we protect the cost increases and the margins in the case of exports.

Sonal Gupta: Right. And on a longer term maybe, I don't think we can sort of tackle this commodity price increase on a one or two quarter basis. But, unless you really expect that commodities will come all the way back down, we will significantly hit because of these pressures. So, like how do you see that do you see yourself gradually taking price increases every quarter 1% to 2% and passing all these on to the consumer or like what is the way forward here?

Ajay Seth: If you take the past history, commodity cycles have been going up and coming down. So, they have corrected over a few years and this is not the first time that we are seeing such a peak, there will be corrections, but we will have to keep watching it closely. And wherever we think we get counter this through our own efforts we will try to do that. So, that's the first initiative to work on our own cost reduction programs. But if the price continues to rise, and if there is a need for correction, we will take appropriate decision at that point in time. We've done that in the past as you would have seen even the price increases we have taken price increases in the last six months2-3 times. But obviously we can't do a very big increase because it really upsets the market in terms of demand.

Moderator: Thank you sir. Ladies and gentlemen that was the last question. On behalf of Maruti Suzuki India Limited that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.