Q2 FY24 – Investor Conference Call

October 27, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 Earnings Conference Call of Maruti Suzuki India Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pranav Ambaprasad. Thank you and over to you, sir.

Pranav Ambaprasad: Thank you. Ladies and gentlemen, good afternoon once again. Welcome you all to the Q2 FY24 Earnings Call. Before we begin, may I remind you of the safe harbour. 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. I also like to inform you that the call is being recorded, and the audio recording and the transcript will be available at our website.

Please note that in case of any error during this live audio call, the transcript will be provided with the corrected information. The con call will begin with a brief statement on the performance and outlook of the business by the Chief Investor Relations Officer and Executive Officer, Corporate Planning, Mr. Rahul Bharti, after which we'll be happy to receive your questions. I would like to invite our Chief Investor Relations Officer, Mr. Rahul Bharti. Over to you, sir.

Rahul Bharti: Thanks Pranav,

Good afternoon, ladies and gentlemen and thank you for joining us.

Today, I will start with an overview of the industry sales performance followed by the business performance of the Company.

Quarter 2 of this year has been a reasonably good quarter. Industry clocked its highest ever quarterly wholesale volume of over 1.07 million units with a year-on-year growth of about 5%. Sales volume for the Company in passenger vehicle segment grew by about 8%, higher than the industry growth. It led to a gain in market share for the Company by 120 basis points.

In the industry, the share of utility vehicle segment continued to expand. In quarter 2, the share of SUVs increased to about 50%, which was about 43% during last financial year. Together with MUV, the share of UV in the industry is around 60%.

In terms of fuel type, CNG vehicles continued to see strong demand and the share of CNG vehicles in the industry has now reached ~15%. Share of diesel vehicles continued to decline and is now about 17% compared around 19% during last financial year Hybrid vehicles has seen a good traction and now the share of Hybrid vehicles has increased to about 2%.

Let me start with some of the business highlights for the Company.

- During the quarter, the Company clocked its highest ever quarterly sales volume of over 552,000 units. After 8 quarters, the Company could avoid production volume loss on account of semiconductor shortages. Going ahead, the Company is cautiously optimistic on semiconductor supplies.

- With the easing of electronic component shortages, production volume improved and the pending orders at the end of quarter 2 has come down to ~288,000 units and further corrected to 250,000 today. Diverging demand patterns between utility vehicle and small car segment is continuing. The Company is working on increasing the flexibility in operations to produce vehicles as per the evolving market demand.

- With an overwhelming response to its products in SUV segment, the Company achieved market leadership with a market share of about ~23% in SUV segment during the quarter 2 of this year.

- The Company is already a leader in hatchback, Sedan, vans and MPV segment. All the four SUVs; Brezza, Grand Vitara, Fronx and Jimny have contributed for the Company to become the No. 1 maker of SUVs in India.

- In Q2 FY'24, exports volume for the Company grew by 9.7% over same period last year. With exports of about 69,000 units, the Company continued to be the largest exporter of passenger vehicles from India. SUV models, such as Grand Vitara and Fronx are also contributing to growth in export volumes. Recently, the company further expanded its product portfolio for exports with start of exports of Jimny 5-door. The vehicle will be shipped to destinations in Latin America, the Middle East and Africa region. Going forward, the Company plans a 3-fold increase in its exports volume by increasing its exports to 750,000 -800,000 units/ year by 2030-31.

As you are aware the Company is now integrating SMG Gujarat plant with itself. This will help the Company enhance its agility and eventually the competitive position in a scenario where the Company will be operating at multiple locations across the country and manufacturing vehicles with multiple powertrain technologies. The Company has shared a presentation with the stock exchange for investors, proxy advisors and analysts for better understanding of the proposal. On 17th October, the Company put up the proposal for shareholders' approval. The voting will remain open until 16th November for shareholders to exercise their voting rights.

Coming to the Highlights of Q2 (July-September), FY 2023-24

In quarter 2, the Company recorded its highest ever quarterly sales volume, net sales, operating profit and net profit. The Company sold a total of 552,055 vehicles during the quarter, registering a growth of 6.7% over Q2 FY2022-23. Out of the total sales volume, 482,731 units were sold in the domestic market and 69,324 units were exported.

In this quarter, the Company registered Net Sales of INR 355,351 million, a growth of 24.5% over quarter 2 of last year. Growth in net sales outpaced the growth in sales volume due to a higher contribution of utility vehicles in total sales volume. The average selling price in this quarter grew by ~15% over Q2 FY2022-23.

The Net Profit for the quarter rose to INR 37,165 million from INR 20,615 million in Q2 FY2022-23, a year-on-year growth of over 80%. This was on account of higher sales volume, cost reduction efforts, favorable commodity prices and higher non-operating income.

In this quarter, as you might have observed that almost all the positive factors combined to give us a good result.

Highlights: H1 (April-September), FY 2023-24

For the period of April-September'23, the Company also recorded its highest-ever half-yearly sales volume, Net Sales and Net Profit.

For the first time, the Company surpassed half-yearly sales mark of 1 million units.

Total sales in H1 FY2023-24 were 1,050,085 units, a growth of 6.6% over the H1 FY2022-23. Sales in the domestic market stood at 917,543 units and exports were at 132,542 units.

The Company registered Net Sales of INR 663,803 million in H1 FY2023-24. The Net Sales in H1 FY2022-23 were at INR 538,298 million.

The Company made a Net Profit of INR 62,016 million in the H1 FY2023-24 as against INR 30,743 million in H1 FY2022-23.

We are now ready to take your questions, feedback, and any other observations that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mr. Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: The first question is a clarification on the quarterly results. I just wanted to know, are there any one-off gains or one-off items which are lumpy, which are lifting our margin profile for the quarter? And second, is there a clarification on the change in inventory position that seems to be quite significant this quarter and does it have any bearing from an accounting standpoint, on the margin numbers that have been reported for the quarter?

Rahul Bharti: So, Pramod, there are no one-offs as such, with the possible exception that commodities cycles and forex keep on varying. We have to keep that in mind. In terms of inventory, the wholesales were about 467,000 units, And retails were at 432,450 units. So, wholesales were slightly above retails, and this is expected, because we need to build inventories in the middle of the festive season.

Pramod Kumar: Sorry, Mr. Bharti, I am sorry to interject. Apologies. But I was more referring to the P&L line item of change in inventories, not the physical inventory at dealers. Basically, there is around INR 800 crores of inventory movement item in the P&L, which is reducing your raw material to sales ratio. Just wanted to understand the accounting intricacies there, because there is some confusion, we got some client feedback that this INR 815 crores explains a big chunk of the margin expansion. So, if you can just help us understand this from an accounting standpoint, does it have any one-off impact or any impact whatsoever on the underlying profitability of the company for the quarter?

Ajay Seth: So, Pramod, let me answer this. I think this question is being asked by many investors. Let me clarify that there is no one-off or exception in the results. Movement in inventory is a regular feature. Inventory keeps getting adjusted every quarter. And there are ups and downs and there are small elements of adjustments that happen, which are very marginal and not very significant.

So, it's a usual practice that the inventories, which comprises of either the finished goods, work in progress, or basically both finished goods and work in progress goods, will keep changing every quarter and to the extent of absorption of fixed cost incidents, there could be some impact on the inventories.

But that's not so significant. And it's a regular feature. It happens every quarter. So, if you were to see it in comparison to last year, it is flat. If you were to compare it sequentially, there will be some impact of inventory buildup, but that is also not very significant.

So, let me clarify that the results either do not have any one-offs or are significantly impacted by any inventory movement.

Pramod Kumar: Mr. Seth, thanks a lot for the clarification. And just to make it even more clear, so, for the volumes what you've done and for the mix what you've done and where the commodity and other elements are, this is the kind of margin one can expect, Ceteris paribus, the 12.9% margin what you reported. If everything remaining constant, everything remaining steady state, this would be the kind of profitability you would have with this volume and with this kind of a mix and whatever discount levels. Is that understanding right?

Ajay Seth: So, let me clarify that in the current context, given the current mix and the current situation that we are in, i.e., commodities, forex, mix, discounts etcetera, the margins are very much what they are. How it will move forward will depend on all the variables such as the commodity costs, foreign exchange, as well as the mix. As you rightly said, if everything is constant, then of course, the margins will remain the same. But if anything changes, then the margins will accordingly move up or down.

Pramod Kumar: Fair enough, Sir. And so, if you can just help us understand the discount number for the quarter, average discount, and the export revenue, that would be helpful. And then I had one follow-up question on the demand side, what is your general demand outlook?

Rahul Bharti: Discounts are about INR17,700 per vehicle, and export revenue was about INR 4,333 crores.

Pramod Kumar: Okay. And Sir, on the demand side, we've heard on business channels recently. I just wanted to understand, if you can provide some information on the demand of urban versus rural, geographical spread, because what we understand is South is a bit weak because of the weak monsoon, especially, for some other categories?

So, give some more granularity on the demand. What you're seeing in the festive season so far, and also going into Dhanteras and then Diwali, how is the inquiry frequency, booking conversion ratio, or how's the demand scenario looking for the rest of the season.

Rahul Bharti: So, demand has been quite stable at the current levels for some time. And of course, geographically, mix always exists. The central zone of the country, for example, Delhi, NCR, Rajasthan, Madhya Pradesh is doing fine. Even south India is doing fine. East India has some weakness. Maharashtra, in some parts, due to the effect of rain, etcetera, has some weakness.

But across the country, the industry is growing at 5%. We had mentioned in the beginning of the year that we will grow faster than industry this year. So, we gave out a projection of about 10% growth in this year. So, that is the outlook.

Festive season is generally defined from Onam to Bhai Dooj after Diwali. So, till now, the industry has grown by about 20%. And in overall festive season it should grow by about 18%.

Pramod Kumar: And Maruti should do better?

Rahul Bharti: In line with industry.

Moderator: Thank you. The next question is from the line of Mr. Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Hi, sir. Could you talk about the various elements or how much was the benefit from each of the elements for the margin, like forex, commodity, and cost reduction, if you compared to Q1?

Ajay Seth: So, Kapil, sequentially, as we mentioned that the major benefit has come from the commodities and the cost reduction that we have been able to achieve. There has been a significant softening in the prices of precious metals commodities. And there we have seen a lot of reduction in the cost on account of that.

Steel prices have reduced, but not such a significant reduction in steel, compared to what we've seen in the precious metals. So, that's one major impact that we see compared to the first quarter. In addition, the effort of cost reduction, which carries on, adds on to the reduction in the commodity prices.

So, that's the most significant portion. Also, the mix and the volume increase helped us in terms of both operating leverage, and in achieving higher margins, that's the second part. The third part is, if you remember, in the first quarter, there was a one-off in the employee cost, as we had given certain retention bonuses, etcetera, which is not there now. It will not be repeated in the next quarters as well. And there was a reduction in employee cost because of this one-time item going away.

Advertisement costs also have been slightly lower than what they were in the first quarter, we had launches and our conferences, which added on to the cost. So, these are the primary reasons. Also, the sales promotion cost is slightly higher, as Rahul had also mentioned, we were about INR 17,692/vehicle in the Q2 FY23-24, we were INR 16,214/vehicle in the Q1 FY23-24, so marginally higher.

But if you add up these numbers, then this gives you a clear signal of the margin trajectory. Where it has gone from first quarter to the second quarter.

Kapil Singh: Sure, sir. Very helpful. And how should we think about the interplay between margins and the market share from here on? Also, if you could talk about the breakdown for the pending orders between some of the key models, how many pending orders are there, and what is the normalized level of pending orders that we used to carry pre-COVID? Did it used to be about one and a half months, one month? Are there models where you need to raise production, or the current supply is sufficient?

Ajay Seth: I'll answer the first question, and Rahul will take the second question. On the margin and market share, we continue to work on both the sides. I think it's very important for us to improve our market share. I think we've been saying that we are now gradually going up, and we'd surely like to see ourselves recovering to that 50% mark at some point in time. It's a tough task, but we are very committed to work towards it. So, that's very important.

At the same time, we keep a very close watch on our margins. You must have seen, while we have grown our market share, we've also grown our margins. So, I think, it will be a constant war between margins and market share, but we'll work on both sides. We'll work on market share improvement, as well as ensure, through various initiatives, our margins are intact.

There are many initiatives, implemented internally for margin improvements in the long term.

Rahul Bharti: On the pending orders, we have about 2.5 lakh units as of yesterday. CNG accounts for around 123,000 units out of this. Ertiga is one major model with about 73,700 units in the pending orders. Then, we have the Brezza, the Grand Vitara, the Jimny, Fronx and Invicto. So, a large part of pending orders is for the SUVs, which have been recently launched.

Kapil Singh: Sure, and what I was trying to understand is, do you need to raise production for certain models or broadly the supply is good enough now? And what were the normalized level of pending orders that you used to have pre-COVID? Was it 1-1.5 month, where it used to be?

Rahul Bharti: Ideally, in the best interest of the customer, we should have a bare minimum pending orders. The customer should not have to wait. Financial investors see it as a positive, but it's a customer inconvenience also. The customer should not have to wait. There are some models which do have a constraint for example Ertiga. So, we would like to improve as we go along. And the inventory position is also fine. We are slightly above one month. So, that is comfortable.

Kapil Singh: Thank you so much. I'll come back in the queue.

Moderator: Thank you. The next question is from the line of Mr. Raghunandhan N L, from Nuvama Institutional Research. Please go ahead.

Raghunandhan N L: Congratulations, sir, on the stellar numbers. Sir, first, on the 16% growth seen in the festive period so far, can you indicate how the urban versus rural growth was?

Rahul Bharti: Rural was slightly higher than the urban. And so far, it continues to be healthy.

Raghunandan NL: Thank you for that. And recently showcased near production model of eVX was impressive. There was another model, eWX. When is the global launch expected there?

Rahul Bharti: So, we must keep in mind that it's a concept. So, one can never be sure whether it will be launched or not. One can never be sure, whether if at all there will be a production version or not, whether it will be close to the concept that had been displaced. So, generally in motor shows, a concept is a designer's language, a way of expressing his imagination, to test and get consumer feedback. As of now, nothing can be said about that.

Raghunandan NL: Sir, continuing the point on launches, Nexa Channel has benefited from several launches. Would there be more focus on Arena Channel going forward?

Rahul Bharti: Both channels have their distinct brand definitions, and we need to be true to their brand definitions, while ensuring that in terms of economics, both get sufficiently utilized and not overloaded. So, it's a balancing act that we keep doing all the time. And we should keep in mind that the model development time is about four years. So, at any point of time, there are models in the pipeline. So, that planning is a continuous exercise. But yes, we would like to keep both channels healthy.

Raghunandan NL: And Sir, can you indicate the capital expenditure plan for FY 2024-25? Would it be around INR7,000 to INR8,000 crores? Because for the first half, the spending seems to be on the lower side?

Ajay Seth: We have yet to finalize the plan for the next year. So, once we do that, we'll be able to give you a better idea.

Raghunandhan N L: For the current year, sir?

Ajay Seth: Current year, the capital expenditure should be above INR 8,000 crores.

Raghunandhan N L: Got it. The last question. On the gross margin, would you see any impact of commodity inflation? Recently, steel prices have gone up. Would that impact Q3?

Ajay Seth: Steel is something that we are worried about. We will have to see how the steel prices pan out. There can be some cost increase that you can see on account of steel prices. On the other hand, the precious metals continue to soften. So, we'll have to see, overall, what impact the steel prices have and what impact does other commodities have, positive or negative. So, steel is going up a little bit compared to what it was this quarter.

Raghunandhan N L: Thank you so much, sir. Very helpful. I'll join back in the queue.

Moderator: Thank you very much. The next question is from the line of Gunjan from Bank of America. Please go ahead.

Gunjan: Hi. Thanks for taking my questions. I had two questions. Firstly, a follow-up on the gross margin. Is there any Forex benefit that is worth calling out, compared to Q1 FY 23-24 to Q2 FY 23-24? And similarly, on the margin, the comment that you made that we'll keep an eye on the margin along with market share.

Is the current level of margin something that you will endeavor to maintain? Assuming there are no extreme volatilities in commodities, which is something we can't call. But is this a margin level that you are focusing on maintaining, or is there an aspiration to even improve on the current level? So, your thoughts on how should we think about the sustainable operating margin in the business?

Ajay Seth: So, sequentially, forex movement is not significant. It's very marginal. There's some benefit but very small. So, that's not a significant number to consider.

On the second question, it is very difficult to predict margins for a longer period because so much is changing in the industry. We are talking about capacity expansion. So, 2 million capacities will go up. We are also talking about transiting to EV over the period of next six years, with six new models coming in.

So, we will have to see what the change in the mix is. And that will happen over a longer period, how do we cope with it, what is the pricing, what is the market at that point in time. So, it will all depend on all these variables. So, to give you any indication, other factors that are more temporary like commodities etcetera. This will depend on where they move, at what point in time and how do you adjust.

While we continue to work on cost reduction, these remain some of the major factors that we will have to consider and how do they affect the margin in the long term. Because how fast we scale up once we go to 4 million and what are the operating levels at a given point in time? What is the fallout of the EVs? How are the margins in that trajectory? So, all that will give you a kind of a feeler in the long run, in terms of where the masses move. Very difficult to say now.

Gunjan: Okay. What I was trying to understand is that the current level of margin, of course, there will be this capacity which will come through and that will affect the margins in the short term. But we've seen so much volatility over the last two to three years and now the business has sort of stabilized and underlying margin as well. So, is the operating margin that you have reported in Q2 sustainable? There's no capacity increase for at least a couple of quarters. In the interim, if the business is at these levels, is a double-digit operating margin sustainable?

Ajay Seth: We had all the positive factors in this quarter. It's very unusual in a quarter that you have all these positive factors. So, every quarter you will have some or the other variable which will not work in your favor. So, I think we had an exceptional quarter this time and there was not a single element which was negative and that brought us to the level where we are. So, as I mentioned earlier, when this question was asked, if everything remains constant, and nothing changes, then, of course, we are here. But if there are any changes in any of the factors, the margins will accordingly get impacted.

Gunjan: Okay, got it. Fair enough. And the second question, is about these comments on a weak small car market. Now a two-part question here. One is, what is the underlying issue as per you, what is really driving the decline in this segment? And is it just that the first-time buyer is still not coming back or that the design preference has completely changed, and the small cars are no longer relevant? What is your reading in that? And how are you trying, in the next two to three years, to still fix the under-representation that you have in the SUV segment? You have had good launches but how should I think about the portfolio planning over the next two to three years?

Rahul Bharti: Sure. So, small cars are a phenomenon of affordability and affordability means both cost and income. The cost has gone up disproportionately because of the increased regulatory intensity you have seen in the past few years. And the income of the customer in this segment has not taken off. We are hoping that sooner or later, the income growth will catch up, and the small car segment will revive.

There are some explanations that the customer is upgrading. A person who can afford a bigger car would have always bought a bigger car. That has been true in India for a long time. So, it's purely an affordability issue in this segment. And as you rightly mentioned, it has declined. For industry, it used to be about 34% of the portfolio. Now, it is about 28%.

If you look at the customer profiling also, we can see a similar reduction in the first-time buyers, almost a 10% reduction in the percentage of first-time buyers from the market for us. So, its closely correlated. We are hoping, that when the income growth in this segment of the population catches up with the increased cost, and the regulatory intensity does not move up further in the next few years, at some point in time, this segment should come back.

On your other question on SUVs. So, we've announced in our annual report that currently from about 17 models, we'll move up to about 28 by the turn of the decade. So new model additions will take place. And being a market leader, and a volume leader, we must cater to all the segments where the market growth is. So, wherever the market growth is, we would like to have a presence.

Gunjan: Okay. Got it. Thank you so much.

Rahul Bharti: Thank you.

Moderator: Thank you. The next question is from the line of Binay from Morgan Stanley. Please go ahead.

Binay: Hi, team. Thanks for the opportunity and congratulations on a good set of numbers. Just a clarification from Mr. Bharti.

Rahul Bharti: Tell me, Binay.

Moderator: We seem to have lost the line for Mr. Binay. We'll move to the next question. The next question is from the line of Mr. Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Hi, sir. A couple of clarifications on the margins. So, this quarter, you indicated the benefit of softening in precious metal. Would you say the full benefit is not yet completely reflected in 2Q, given that the meltdown was a second-half phenomenon in 2Q? And do you expect further benefit on forex side?

Ajay Seth: The majority of the benefit has already come in the second quarter. But we still see some softening in the precious metal commodity prices. And if they continue to soften, then, of course, the prices can go down even further. But on the contrary, the steel prices are going up. So, as we mentioned, we will have to see the basket of commodities, not just the precious metals, but also steel, which is almost half of the commodity basket. Both will pan out in the second quarter.

Jinesh Gandhi: Okay. And similarly, on the forex side, we have seen a very smart move on JPY-INR, which given your vendor input, comes with a quarter's lag. So, do you expect that to be a reasonably favorable factor going forward? As you indicated in 2Q, we had limited benefit on the forex side.

Ajay Seth: Yes. So, the yen continues to depreciate against the dollar and is currently close to 150. And last quarter, we were around 140 and 145. So, there could be some benefit of forex that we can see, depending on how the final rates end up in the second quarter and in the third quarter.

Jinesh Gandhi: Right. And the last clarification is on capex. So, you indicated INR8,000 crores in FY '24, close to about INR5,000 crores in second half. Does this INR8,000 crores also include SMGs capex, which you are doing on BEV capacity as well as battery plant?

Ajay Seth: No. This capital expenditure is purely of MSIL.

Jinesh Gandhi: Okay. And now, given that you are proposing to take over SMG, what kind of capital expenditure would SMG be doing in FY '24?

Ajay Seth: So, that should be considered after we finalize the budgets. That exercise is already on. Once we do that, then we will know what the capital expenditure for both the companies will be?

Jinesh Gandhi: Got it. And in Suzuki's presentation, which was uploaded a couple of days back, there was a reference to the increasing capacity of the battery electric vehicle at SMG. Any information on the kind of capacity addition happening over and above the 7,50,000 capacity of SMG?

Ajay Seth: We'll have to look at the market demand and then decide.

Jinesh Gandhi: Okay. Because there was INR3,100 crores capex earmarked for that. So, I thought that might have been finalized. Okay. No worries. Cool. I'll come back in queue.

Moderator: Thank you. The next question is from the line of Mr. Binay from Morgan Stanley. Please go ahead. Mr. Binay, you may go ahead with the question.

Binay: Hi, team. Thanks for the opportunity. When you talk about drivers of good margins, we've not talked about the mix, your SUV share going up. So, is that implied because or you think that it's not a big driver for margins?

Rahul Bharti: So, we talk about blended margins overall for the company. And these factors keep on changing depending upon the market conditions, which segment is growing by how much. And so, this keeps on changing. That's the reason we don't look at this factor much.

Binay: Second here, just when we look at the overall demand environment, we're talking about 18% growth in the festive season and 5% growth for the whole year, for the industry. How do you tie up this sort of wide range? Is the festive demand predominantly driven by order books being fulfilled because there was a production issue earlier?

Rahul Bharti: Sorry, what is it that you're trying to reconcile? Which numbers?

Binay: Like, for example, the festive Y-o-Y growth we are talking about is 18% for the industry, whereas the growth in the demand for cars for the year will be about 5%. So, in that sense, there is a huge range in the growth rates, right? 18% is a very good growth number, whereas 5% is more moderate. Obviously, if there were order backlogs, they are getting exhausted, affecting the sales numbers. But anything else that you think is causing this divergence between growth rates?

Rahul Bharti: See, it's slightly more complex than it appears since the customer behavior is difficult to model. They might postpone or prepone their purchases. It might be a geographic issue. It might be a segmental issue. But you're right, the overall annual industry growth of 5% is the reality.

And even though we say that all factors are positive, and the industry grew, you have to keep in mind that over a five-year period, the CAGR has been close to 4%. For a developing market, like India, it's not something too great. And even this year, industry is growing 5%. If Maruti Suzuki is growing higher, it may be a market share phenomenon, but overall growth is not that much.

Binay: In fact, now, you can come into the small car segment, as your SUV share is rising, we are seeing that your first-time buyer share is dropping down. That also addresses the fact that it is a more first-time buyer recovery delay, which is hitting the small car segment. But as a company, what are you trying to do?

Because small cars are a big segment for Maruti, right? how are you trying to bring the customer back? The product launch momentum in the small car segment seems more muted versus the SUV segment. What is the company's thought on how to get that segment going again?

Rahul Bharti: From our side, we can make exciting products. We can work on the total cost of ownership, both the capital cost and the running cost. We can leverage our network. But beyond the point, we must just wait for the market to revive. So, I think sooner or later, this segment will revive. Let's keep in mind that the top 3% of India today owns a car. So, if the car market has to grow, more people have to move from the 97% club to the 3% club.

Sooner or later, it will happen. There are crores of people who own two wheelers, they, at some point of time, will upgrade to cars. It might get delayed by a few years, but it will happen sooner or later. So, we are in it for the long term. And fortunately, we have the volumes. So, we are committed to all segments.

Binay: Lastly on the discounts in the festive season, are these normal levels like in Q2. Discounts are almost 2.7% of sales. Will the discounts be at the levels of Q2 FY23-24. Or are they inching up in Q3 FY23-24?

Rahul Bharti: No, at the usual levels only.

Binay: Great. Thanks a lot for that. Thank you.

Moderator: Thank you. We'll be able to take one last question. The last question is from the line of Mr. Chandramouli from Goldman Sachs. Please go ahead.

Chandramouli: Hi, good evening. And thank you for taking my question. My first question is just on the fungibility of production capacity. I think the company has close to 2.3 million units of annual manufacturing capacity. And as we shift the mix of production towards the larger vehicles, more SUVs, how fungible are the production lines? If we need to make more SUVs, would that have some short-term or medium-term impact on the absolute production capacity of 2.3 million that we have?

Rahul Bharti: So, you're right. We've discovered this in the recent past. One of the reasons our margins had dipped was because we were producing some slow-moving cars. And we did not have sufficient production capacity for the cars that had demand. If we had the flexibility of both, whether it is semiconductor supplies or in-house production, we would probably have less of such a problem. Hence, it's a conscious move, we are increasing the flexibility of our production operations. It does come at a small cost, because then you are working on a slightly suboptimal format of production. And one of the reasons for SMG integration is that it gives us flexibility and agility to quickly respond to the changes in demand.

Chandramouli: Got it. That's helpful. And my second question is on the comment that, by 2030, you are targeting to do about 750,000 units of exports. That's almost a tripling of what the current annuals run rate is. You also mentioned that you're looking to export more units into slightly higher income economies, the Middle East and Latin America in addition to Africa, which are a more moderate-income economy. Does this imply that unlike the current mix, where you export more small cars, over time, you are looking to export more premium vehicles. Just trying to understand how the mix might shift in your export business?

Rahul Bharti: The ASP for export business is only marginally higher than ASP for the domestic business. And the top three selling models in the exports are Baleno, Dzire and S-Presso. We are exporting to almost 100 countries of the world. And at any time, some country or the other would have some problems or policy barriers, either in form of some protectionist policy or because of some economic weakness. So, it's a very dynamic situation. But our focus continues to be on Africa, Latin America, Southeast Asia and even the Middle East. Barring US and China, we will be almost everywhere.

Chandramouli: Got it. Thank you very much. And all the best.

Moderator: Thank you very much. We'll take that as the last question. On behalf of Maruti Suzuki India Limited, that concludes this conference. Thank you for joining us, ladies, and gentlemen. You may now disconnect your lines.