

## **Maruti Suzuki India Limited**

Quarter 2 - FY'09 Financial Results Conference Call  
October 24, 2008

### **Operator:**

Thank you for standing by, and welcome to the Q2 FY09 Results Conference Call presented by top management team of Maruti Suzuki. At this time all the participants are in listen-only mode. There will be a presentation followed by a question-and-answer session. At which time, if you wish to ask a question, please press star one on your telephone keypad, and wait for your name to be announced.

I would like to hand the conference over to Mr. Govindarajan Chellappa now.  
Over to you sir.

### **Govindarajan Chellappa:**

Yeah. Hello and Good afternoon all. Credit Suisse is pleased to welcome you all to the Maruti results conference call. Representing Maruti today is Mr. Nakanishi, CEO and Managing Director with the entire top management team. The team from Maruti will discuss the results, as well as any questions on Maruti's long-term strategy that investors may have. I now hand over the proceedings to Rahul Bharti.

### **Rahul Bharti:**

Thank you, Govind. Good afternoon ladies and gentlemen. Thank you indeed for joining us today in this conference call. Our leadership team led by our Managing Director and CEO, Mr. S. Nakanishi. We will initiate this earnings call with an overview of the business performance in this quarter, after which we will have discussions and questions and answers. Before I hand over to Mr. Nakanishi, I would like to inform all of you of the Safe Harbor. Anything we say that refers to our outlook for the future must be read in conjunction with the risks that the company faces. I would also like to remind you that this call is being recorded and the transcript of this call will be available at our website [www.marutisuzuki.com](http://www.marutisuzuki.com). I now invite Mr. S. Nakanishi over to you sir.

### **Shinzo Nakanishi:**

Thank you Rahul. Good afternoon, ladies and gentlemen. Thank you for joining this conference call. I will begin with an over view of the quarter.

Our total sales in the second quarter were 189,451 units as compared to 191,325 units in the same period last year. In the domestic market we sold 171,706 units in the second quarter against 176,154 units same period last year.

Macroeconomic parameters like lack of credit availability, high interest rates, and a depressed consumer sentiment affected the overall demand. While models like Swift and DZire continue to sell in good numbers, pressure was felt at the entry level resulting in flat volumes.

We were able to hold our overall market share in the second quarter at 54.2% as compared to 55.3% in the same period last year.

During this quarter, the company exported 17,745 units against 15,171 units last year same period. We are happy to share with you, we have been judged number one in customer satisfaction by JD Power for the ninth consecutive year.

We have increased our capacity to 1 million units by putting up the A Star line in Manesar. We also inaugurated our new generation K- series engine shop.

I would now come to our financials. Net sales for the quarter were higher by 6% at Rs. 48,063 Mn. Increase in the top line was on account of change in product mix resulting in higher average realizations. Net Profit for the quarter was Rs. 2,961 Mn as against Rs. 4,665 Mn same period last quarter. Let me discuss the factors that affected our profitability during the quarter.

Sharp increase in prices of commodities, especially steel, impacted us. Though we passed on some part of this additional cost in form of price increase in the market in May 2008, we could not pass it on completely due to slow markets. We use diesel to generate captive power for the Manesar plant. A higher share of cars from the Manesar plant increased our fuel cost. Our import cost increased due to rupee depreciating against yen by about 20%. Though there were gains in export realizations due to stronger dollar, the over all impact was negative by Rs. 180 Mn

You would be aware that we adopted a more stringent depreciation policy last year. Due to this change, additional depreciation of Rs. 568 million had to be charged off in the second quarter.

We have been monitoring our discounts very carefully. Although we offered discounts due to the market situation and competitor moves, we were able to keep our discounts below what was offered by several competitors.

Now let me discuss our outlook for the future. We are all aware of the global macroeconomic situation and the impact on the Indian market.

Experts are debating about how long and how deep this slowdown will be. Our view is that relatively speaking, India will recover sooner because of the potential of our domestic market. The sixth pay commission may help to boost some demand and improve consumer sentiment. Though we have seen good consumer interest in the current festive season, we cannot predict, this will continue in the second half of the financial year.

On the cost side, the pressures are likely to continue for sometime. Most commodities except Steel are beginning to show a decline. With some time lag, we may start getting a benefit of this decline. We remain confident that in the long term, India presents a strong growth story, I would like to share with you the steps we are taking currently.

As a culture, Maruti and Suzuki group are very cautious and avoid complacency even in the good times which is now helping us in tough times. First, we are taking care of our partners. We are careful that our dealers should not carry excess inventories, even if that increases our sales temporarily. We follow a cash and carry principle with our dealers and make weekly payments to our vendors.

Second, we have been focusing on cost reduction innovation programs and as a result we have a strong balance sheet with good cash reserves to fund our expansion programs. The network reach is a strong advantage of Maruti and we will increase our sales network coverage from 402 cities currently to 600 cities in the next 3 years.

Our focus on customer satisfaction has helped us be the brand of choice for our customers. We have always been planning carefully while putting up production capacities and try to stretch our existing facilities with higher productivity.

We are making special efforts in the rural markets by targeting farmers of successful cash crops. All our expansion programs are on schedule. We are on course to launch A Star by next month in the domestic market and Splash in the next financial year. The K - engine shop will be expanded to include more engines in the series.

Our R&D recruitment plans are on course and our R&D engineers' strength has increased from 258 in the beginning of the year 2007-08 to 560 now. We are on track for the medium and long term, and while there is pain in the short term, we are taking strong steps to strengthen our leadership.

Ladies and gentlemen, I thank you for your interest in our company and would like to invite any questions you wish to ask. Thank you!

**Operator:**

Certainly sir. At this time, if you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash or the pound key. First in line, we have a question from Mr. Pramod Kumar from BNK Securities. Please go ahead.

**Pramod Kumar:**

Sir, good afternoon to everyone at Maruti. Sir, just a couple of housekeeping questions. Basically to start with, the FOREX loss which we have booked during this particular quarter?

**Ajay Seth:**

Pramod, this is Ajay Seth here.

**Pramod Kumar:**

Yes sir.

**Ajay Seth:**

On the exchange side, at the normal transactions, we didn't have any exchange loss.

**Pramod Kumar:**

Okay.

**Ajay Seth:**

But on the ECB reinstatement, we had a loss of 20 crores.

**Pramod Kumar:**

20 crores, sir?

**Ajay Seth:**

Yes.

**Pramod Kumar:**

Okay. And sir in the other expenditure, is there any one-off kind of expenditure which we have incurred apart from higher diesel fuel power and fuel costs on account of higher ramp up in Manesar? Is there anything else which is one-off in nature?

**Ajay Seth:**

They are regular routine expenditures.

**Pramod Kumar:**

And then how much would be your sales and distribution expenses sir? If you can, because normally you provide that detail, so far we haven't received it?

**Ajay Seth:**

Okay. Our advertisement and selling expenses are around the same level as last year in term of percentage, right?

**Pramod Kumar:**

Okay. Sir, your absolute number would be of real great use sir.

**Ajay Seth:**

Total amount for this quarter, for advertisement and sales promotion is Rs. 88.4 crores.

**Pramod Kumar:**

Okay. And sir on the raw material side, is it rupee-yen impact which is hurting us?

**Ajay Seth:**

Yeah. So what we mentioned was that the exchange, as Nakanishi sir mentioned in his opening remarks, that the exchange loss that we have seen, if you compare quarter-on-quarter, was about Rs 18 crores, Rs 180 million.

**Pramod Kumar:**

Okay.

**Ajay Seth:**

Okay. So, far we have been able to manage it well. But yes the caution is that in next few quarters, the way rupee has depreciated, that would be a little pain.

**Pramod Kumar:**

And sir, because I think for the benefit of everyone, if you can just throw some more light, because there has been lot of rumors regarding Maruti's higher dependence on yen for imports. And if I am not wrong, you import still even from Korea as well? So, if you can broadly throw some light on that factor -- on your impact basically?

**Ajay Seth:**

See, the yen and the total imports that we have, we are localized in most of our models of over 90%.

**Pramod Kumar:**

Yes, sir.

**Ajay Seth:**

Right. Even transmission, which was earlier being imported, is now localized.

**Pramod Kumar:**

Okay.

**Ajay Seth:**

So, the import bill for the year is less than 2000 crores. So, any impact will on that sort of amount.

**Pramod Kumar:**

And so, split between say, for our steel consumption, what would be the split between say, Japan and Korea?

**Ajay Seth:**

We are importing from Korea only. Some from Japan as well. There should be the -- special steel has been imported from Japan as well. But the approximate mix is 60-40 between domestic and imported.

**Pramod Kumar:**

Okay. 40% is imported.

**Ajay Seth:**

Yes.

**Pramod Kumar:**

And sir, in Japan, if I am not wrong. There has been -- Tokyo Steel has cut down its steel prices. So, will that -- that is getting reflected in the negotiation or in the contracts which you are going to sign for the second half?

**Unidentified Speaker:**

My name is Maitra, I look after materials function.

**Pramod Kumar:**

Yes, sir.

**S Maitra:**

As you are saying that Tokyo Steel, there is nothing like Tokyo Steel under the Nippon Steel, you know from which we buy. And they are the main steelmakers of Japan. And in fact, for our second half contract, because we have six monthly contract

**Pramod Kumar:**

Yes sir.

**S Maitra:**

For the second half, they have again asked for a 22% increase.

**Pramod Kumar:**

They have asked for a 22% increase.

**Unidentified Speaker:**

As -- over the hedge fund prices.

**Pramod Kumar:**

Over hedge fund prices? Okay I think that would be enough. I will get back with more questions. Thank you sir, and best of luck.

**Operator:**

Thank you, sir. Next in line we have a question from Mr. Amal Lodha from Edelweiss. Go ahead sir.

**Amal Lodha:**

Hi. Good afternoon, sir. Sir, if I have to look at the margins with the way they move sequentially. We had a margins of around 9.8% in the Q1 and they have gone down further. If I am not wrong we have taken a pricing in the middle of Q1, which would have gained us like somewhere in the range of 70 crores, plus would have lost out something because of the yen appreciation in the import bill. But together, the hit on the margins, it's quite severe, could you throw some light on that sir?

**Ajay Seth:**

I will answer that question, Ajay Seth again here. See margins have sequentially, if you see the first quarter and second quarter have dropped by about 1.4% right?

**Amal Lodha:**

Yes.

**Ajay Seth:**

Effectively the reason is, in the first quarter, the full impact of the raw material increase did not happen. It actually happened in the second quarter, because it is in pipeline and so on. So the real impact of the increase happened in the second quarter, and also second quarter saw some erosion because of the exchange variation, because the rupee depreciated steeply in the second quarter compared to first quarter.

**Amal Lodha:**

But sir the price hike that we gave to our vendors was with retrospective effect from the 1st of April?

**Ajay Seth:**

That's right.

**Amal Lodha:**

Yes so we will give some more further increase for the vendors in the Q2?

**Ajay Seth:**

No. But what happens is that, to the extent the pipeline entry is there.

**Amal Lodha:**

Okay.

**Ajay Seth:**

You don't give increase on that, and from the balance we do give increase.

**Amal Lodha:**

Okay. And then on the pricing that we took. That would have had some positive impact from the margins, if I am not wrong?

**Ajay Seth:**

It did. But our price hike was very notional. It was only 1% compared to the input cost increase, it was much more.

**Amal Lodha:**

Okay. And what's the outlook on the margins going forward now, for the H2 with H1?

**Ajay Seth:**

Yes, Nakanishi sir mentioned in his opening remarks that this year we will see a little bit of pain, but we are doing all correct -- we are taking all counter measures or cost reduction plans so that, you know, the long term margins are kept intact.

**Amal Lodha:**

Okay, fine. Thank you, sir.

**Operator:**

Thank you sir. Next in line we have a question from Mr. Kapil Singh from Nomura Securities. Please go ahead.

**Kapil Singh:**

Sir, my question has been answered. Thank you.

**Operator:**

Thank you, sir. Next in line we have a question from Mr. Sahil Kedia from Enam Securities. Please go ahead.

**Sahil Kedia:**

Sir, just wanted to get some -- if you can give us some indication in terms of what has been the response to this festive season numbers? And how and, you know, with this full, fear which they have eased, would it -- has it really made an impact on volumes?

**Mayank Pareek:**

Yeah, Sahil, this is Mayank, I look after marketing and sales.

**Sahil Kedia:**

Yes sir.

**Mayank Pareek:**

I think very interesting question you asked, effect of festival from sales?

**Sahil Kedia:**

Yes sir.

**Mayank Pareek:**

Right, it's a normal thing. Every year we have this festival, which is going on. What we have seen so far in this month is compared to last year, the sales are up just for the festival season.

**Sahil Kedia:**

Okay.

**Mayank Pareek:**

Okay. Going forward let us see how it goes; because this year, we have added advantage that all the festivals are falling in one month. You remember if you see the calendar, earlier years, these festivals were spread over September, October and November.

**Sahil Kedia:**

Okay

**Mayank Pareek:**

All the major festivals are falling in October. So probably, it's the case of postponement of September and preponement of November. So this month we are seeing good sales. But what is important for us it to see how does the quarter look.

**Sahil Kedia:**

All right, sir. Thank you so much.

**Operator:**

Thank you, sir. Next in line, we have a question from Ms. Supriya Khedkar from ICICI Direct. Please go ahead.

**Supriya Khedkar:**

Yeah. Good afternoon, sir. I just wanted to understand with -- we've seen SX4 and DZire sales are increasing. So, the major focus is coming to on the sale of this particular segment other than any segment or it's a market response which you are getting?

**Shinzo Nakanishi:**

Well thanks to the market feedback to the DZire and Swift. We are increasing sales for these 2 models. But since these models are produced at the Manesar, we have the some constraint and also limited diesel availability.

**Supriya Khedkar:**

Okay, sir. Thanks a lot.

**Operator:**

Thank you, ma'am. Next in line, we have a question from Mr. Mark Franklin from [inaudible] Bank Capital. Please go ahead.

**Mark Franklin:**

Hi, thanks very much. My question relates to first, for the A-Star and then on overall volumes and so on. In the press release for the results, you mentioned that the A-Star will be launched in India next month. Are you able to say what kind of monthly volume expectations you have, post launch for the A-Star domestically, and then as a follow-on from that, I understood that the A-Star was also tested for the European markets via the relation with Nissan and can you shed some light on when that will be launched into Europe? And then second question, just overall on volume outlook and we've seen sort of -- with the exception of September ahead of the earlier festival of this year, with the exception of that monthly sales volume [going slow down]? As buyer's [inaudible] has declined and then liquidity is tightened up. Do you expect volume growth for the industry as a whole to slow down further, or are you seeing some kind of improvements into them, perhaps post year, the public employee state pay rises? Thank you.

**Mayank Pareek:**

Yeah, Mayank here again. Very interesting and a very long question you asked. Let me try to answer that. Yeah, A-Star is actually fifth global model coming from Suzuki. And our experience has been that all the earlier models have done really well, in India, as well as across the world. And we are confident that this model will also do very well. And if I have to use a marketing jargon, this will scorch Indian roads. We are planning to launch it in this quarter, next month we are planning to launch domestically, and earlier next year for the international market. And we are confident that as in past, customers will respond very positively to all the [models] for Maruti Suzuki, for A-Star also.

Going forward, I think, all of us know that these are, as I say, interesting times, with so many things changing all around us. It is not really fear I guess. But what we can see is that there are lot of opportunities. Of course, in the first half, market has loomed around 5%. Maruti has almost kept pace with that and with that we have been able to almost retain our market share. Going forward, what we are trying to do to leverage on this

opportunity is, despite this, this uncertain condition, we are trying to find customers who are rather less affected by this.

Let me elaborate on that, what we mean by that. First and foremost, what we are trying to do is, we are identifying -- we are redoubling our efforts on the rural markets. Rural India is a big potential, there are 600,000 villages, many of them are joining economy only now. Luckily, the earlier crowd, rabi crop was quite good. Kharif crop also is expected to be good. So, we expect lot of money to come to market.

Government as also increased its allocation rural segment by almost 41%. So, that is a lot money coming into the rural pockets and we are focusing our efforts on that.

Just to give you a sense of result what we've achieved in first six months, our growth in rural market is up 59% in first six months. Similarly, we were also targeting corporates in a big way. Corporates would define, I think, the sales of future. Corporate means the cars we devise for their employees. They are rather less elastic to the price and liquidity problem. So we are targeting on that and I think our numbers are 50% up in that segment. Similarly, we are trying to find small, small measures, which individually they are very small, but cumulatively they will become very big. Radio taxi is one, where we've made some big breakthroughs and I think our products are doing well. So to bottom-line it, yes there are challenges these are interesting times, but we have innovate, work that much harder and get back the sales.

**Mark Franklin:**

Okay. Thank you very much indeed.

**Operator:**

Thank you sir.

**Govindarajan Chellappa:**

Yes, Manisha, before you go on to the next question, can I request participants to limit their questions to one, the first attempt, and maybe come back later if they have additional questions. Thanks.

**Operator:**

I would request participants to please restrict their questions to one or two. Next in line we have a question from Mr. Ambrish Mishra from MF Global India. Please go ahead.

**Ambrish Mishra:**

Yes, good afternoon everyone. Just wanted to understand from a marketing of view. This is basically to gauge in terms of customer bifurcation; because if I look at the two-

wheeler industry, and the passenger car industry, and we go by what the two-wheeler market is doing. How is it so difficult for Maruti or any other passenger car maker to pass on the price hike, when in a market like this, the two-wheeler industry has been successfully been able to do that. So, just wanted to understand, what are the challenges that stop us from passing on this price hike; because if I go by the normal understanding that the two wheeler customers are more price sensitive than the four wheeler customer? If you can just throw some light on that?

**Mayank Pareek:**

I think very interesting question again. See what we do is we offer a value to customer. And whenever we find that value is superior, our endeavor is to provide a superior value to the customer continuously. As you see these times when interest rates were going up, and incidentally 75% odd customers buy cars through -- after talking loans or finance. So that cost is anyway going up. About a year back, the auto loan was available at around 7.5% or 8%, now that has gone to 14%. So for the 74% odd customers, actual cost price has actually gone up. So we need to continuously offer value to customers -- which customers find attractive and which you see even in these tough times. Our growth is 4.5%, which is, I think quite good.

**Ambrish Mishra:**

Sir just to take this question forward rather than last. Are we contemplating any price hike to compensate for such huge cost increase?

**Mayank Pareek:**

No. We are not -- our first endeavor is always to attack inside and cut cost. And in fact if you go back, we've done real big cost cutting programs, Challenge 30, Challenge 50, Challenge 21. So cost is to cut inside cost, and then we see. But currently, we do not have any plan to pass on costs.

**Ambrish Mishra:**

Okay sir. Thanks a lot. Looking forward to a better number because of the cost cutting. Thanks.

**Mayank Pareek:**

Yeah. Thanks.

**Operator:**

Thank you, sir. Next in line we have a question from Mr. Jay Ranganathan from Kotak Securities. Please go ahead sir.

**Jayanth Ranganathan:**

Hi. Thanks for taking my question. Can you give us your debt breakdown at the end of the quarter --?

**Ajay Seth:**

We had an external commercial borrowing of about 560 crores.

**Jayanth Ranganathan:**

Okay

**Ajay Seth:**

And we have some banking credit loans, supply against export, which is about 400 crores. So about 1,000 crores of borrowing.

**Jayanth Ranganathan:**

Okay. And my next question was related to your earlier point about rural sales being up 59%. I'm just wondering, is that a negative on the mix side, and would that affect your lower realizations, on a per unit basis?

**Mayank Pareek:**

No. Nothing like that. Actually this is a mix-up. People assume that rural people will buy drive cars that are cheap or entry level cars. You will be surprised to know that they buy all cars. Only, we will have to change your perception that rural customer means poor customer. It is wrong. There are people in rural areas, who have money, high disposable money. It's only for a company to innovate and reach them. It take lots, six or eight months, we made a lot of efforts to reach them. It's very simple thing that go to rural, but actually doing it on ground across country is quite a tough job. That's why it is easy as a idea, but very difficult to execute. Just imagine, [inaudible] going to 600, 1000 odd villages across the country and communicating to them, creating a need for a car and then fulfilling that need.

So, coming back to your question, no, it is not that poor or rural people buy only entry level. They buy all cars.

**Jayanth Ranganathan:**

Okay. And lastly, can you just update us on your CapEx budget for the year?

**Ajay Seth:**

The CapEx this year would be about 2000 crores. And first half, we have incurred about 900 crores, the balance will be incurred in the second half.

**Jayanth Ranganathan:**

Okay. And over the longer term, does it -- should it track closer to depreciation? Does it kind of -- is that a fair comment?

**Ajay Seth:**

See, the program that we talked about of 9000 crores between Manesar, and Gurgaon, that should be over by next year and we will have an additional spend of about 2000 crores next year as well.

**Jayanth Ranganathan:**

Okay

**Ajay Seth:**

Other than that - the other investments would be in the R&D, which we are quantifying, and also on the marketing infrastructure.

**Jayanth Ranganathan:**

Okay. So beyond fiscal '10 it should kind of be closer to that depreciation amount?

**Ajay Seth:**

No. This will take maybe another two to three years before it will settle down.

**Jayanth Ranganathan:**

Okay. Okay. Thank you.

**Operator:**

Thank you, sir. I would request participants to please restrict their questions to one or two. Next in line, we have a questions from Mr. Chirag Shah from [NK Global]. Please go ahead.

**Chirag Shah:**

Hi, good afternoon everybody. My first question is on the raw material side again, just trying to understand first of all this 22% price hike that has been demanded pertaining to

Maruti or it has been demanded as a part of Suzuki Group that you indicated, that Nippon is asking for a price hike of 22% into which?

**Mayank Pareek:**

Mayank here again. This is only pertaining to Maruti.

**Chirag Shah:**

Okay

**Mayank Pareek:**

Because that group dealing with that domestic and group dealing with the export markets are different.

**Chirag Shah:**

Okay.

**Mayank Pareek:**

It's only pertaining to Maruti

**Chirag Shah:**

And on the raw material side again, what is, how would be the arrangement with the domestic procurement, especially -- or the vendors; because your direct purchase would be very less? Most of the purchases would be used by vendors, auto company suppliers. So what is the kind of pricing action either upward or further downward that is expected?

**Mayank Pareek:**

You know the general arrangement what we have is, that now we have been consolidating the purchases of Maruti as well as vendors together. So what we do is that we do our negotiations with the steel suppliers.

**Chirag Shah:**

Okay

**Mayank Pareek:**

The total requirement for the period up to six month. And then they decide the prices and base don that the vendors also go and buy with the same price from the steelmakers

**Chirag Shah:**

Okay. So what I am trying to understand that, with the raw material cycle that is declining, the steel prices, aluminum etcetera. On the domestic procurement, what is the kind of -- how would you put it; because you indicated whatever imports you will be making, there is a likelihood of happening at a higher price? Would that same apply to the domestic procurement, be it directly by Maruti or its vendors or as a club?

**Mayank Pareek:**

See, most of the time what happens is even the domestic producers also go for an import parity price. I mean, when they see that, looking at branded cost of a particular commodity is coming at a price here, they also keep their prices nearby. So therefore, it is, basically -- we don't get a big benefit in domestic. So this is what -- that is the first thing which happens. But as far as the other commodities are concerned, apart from steel, we might get a benefit only from quarter four, because we always work with a lag.

**Chirag Shah:**

Okay

**Mayank Pareek:**

In quarter three, we are not likely to get any benefit, but quarter four we might see some benefit.

**Chirag Shah:**

Okay. Last question is that you indicated you have different kind of schemes that are running targeting specific customer profiles. Be it rural, corporates, similarly. What would be the total proportion of this particular group as a percentage of your overall volumes, domestic volumes, if you can shed some light, a broad number; because it has been recording 50-50% kind of growth that you indicated? So, what will be the population of that in your overall domestic sales?

**Mayank Pareek:**

Yeah Chirag, Mayank here. I think, very interesting questions. See as far as rural market is concerned, this is a thing which we have recently started. We started out last year July and this year, so I think it will constitute around 5% of our total sales as of now.

**Chirag Shah:**

Rural?

**Mayank Pareek:**

Rural. But I mean that's the tip of the iceberg, we should have much more potential there.

**Chirag Shah:**

Okay

**Mayank Pareek:**

As far as corporate segment is constituted of around 18 to 20%

**Chirag Shah:**

Okay. Thank you.

**Operator:**

Thank you, sir. Next in line we have question from Mr. Pramod Apte from ABN Amro. Please go ahead.

**Pramod Apte:**

Sir, this is to Nakanishi San.

**Shinzo Nakanishi:**

Yes.

**Pramod Apte:**

Considering that there are lot of turmoil in Europe and across globe, and you have been aggressive in terms of during the export target for the next couple of quarters or years. Are you seriously relooking at it considering the situation now?

**Shinzo Nakanishi:**

Of course, we feel that it's in Europe, and they are also -- they are seriously facing this current slowdowns in market. However, our target is not only Europe, but also other country except US, Japan. So that, if we target -- if we separate to make this separate. We have the confidence that we reach and achieve our target. By 2010 as I said, always if you know, as I said, by 2010 possibly to that export number you know, I have the confidence to reach there.

**Pramod Apte:**

All right. Thanks. And I am looking for some clarification here from Ajay Seth. So, if I am right, first quarter you had a mark-to-market on the rate to exposure. And you had unrealized loss on the derivative instrument which you took on the balance sheet. How does it stand in this quarter, September quarter?

**Ajay Seth:**

See, mark-to-market, I mentioned that on -- is largely on account of the ECB loan. We have taken 20 crore further hit on mark-to-market. So, the total loss on the ECB loan mark-to-market is about 50 crores cumulative for March till date.

**Pramod Apte:**

Okay. And have you routed through it the P&L or it's directly taken to...

**Ajay Seth:**

This is -- mark-to-market is all routed through the P&L.

**Pramod Apte:**

Okay.

**Ajay Seth:**

There could be other contracts which will go to the end user, where we have applied hedge accounting.

**Pramod Apte:**

So in that context of the increment or whatever 30 crores is there, where does it reach line item sitting on the P&L?

**Ajay Seth:**

Its will be in the other expenditure.

**Pramod Apte:**

Okay and thanks for that. And if I can ask this last question to the marketing especially considering the, there is some amount of hope on the 6th Pay Commission. How do you look at it as an opportunity in terms of target segment, user segment and what to expect in -- might be in a couple of quarters going forward on that?

**Ajay Seth:**

I think going forward that is one of the big opportunities we have with Central Government already releasing funds in October and State Governments also are reviewing their pay packages.

**Pramod Apte:**

Okay.

**Ajay Seth:**

We think going forward, this will be a big opportunity. These are the customers who have by way of down payment, they have ad hoc money, plus increased salary. So they are definitely good targets segments.

**Pramod Apte:**

But any numbers you can throw on that?

**Ajay Seth:**

No. I think the opportunity is too big. It's very difficult to quantify at this point. All depends on our efforts.

**Pramod Apte:**

Thanks and all the best.

**Ajay Seth:**

Thank you.

**Operator:**

Thank you, sir. Next in line we have a question from Mr. [Mohan Bej] from Centrum Broking. Please go ahead.

**Mohan Bej:**

Good Afternoon sir. This is [inaudible]. Just wanted to understand that we do know that A-Star is going to get launched and by it's launch, you will have a multitude of small compact hatchback cars. Are you planning to phase out any of your model, so that you can rationalize your product portfolio?

**Shinzo Nakanishi:**

No this is a totally additional model.

**Mohan Bej:**

Then what's happened to -- any cannibalization that can happen on the A-Star?

**Shinzo Nakanishi:**

No cannibalization. But we have to make good preparation to -- in order to avoid the cannibalization.

**Mohan Bej:**

How can that be done sir, if I may ask? Your pricing of all models are very tight.

**Mayank Pareek:**

Yeah, it's not only pricing. The car is just not a product which is used for going from point A to point B. It has got lot of personality. So for us, it's important to position the car right. And in the company, what is of course, no denying the fact that some cannibalization will definitely happen. But what is important is that overall numbers, A plus B go up, and that's what is our endeavor. In the past also, we've seen that whenever we launch a new model, this question of cannibalization crops up. Our experience is that by and large, we are able to position our products clearly and distinctly in the eyes of customers. The customer chooses one way or the other. Its better that he chooses one of our products than going to competition.

**Mohan Bej:**

Right, another question, in this tightening liquidity, would Maruti enter into supporting fields through it's own ways of financing, because you do have insurance and you support your vehicles with insurance products?

**Mayank Pareek:**

No, actually we do not have any plan to enter finance our business. Our core competence is to make and sell good cars, and that's what we're selling and we continue to do that. We do not have any plan to enter that market.

**Mohan Bej:**

Okay, one final housekeeping question. Your other income has just dropped. Any reason for that?

**Ajay Seth:**

Other income has actually gone up from 78 crores to 96 crores in this quarter.

**Mohan Bej:**

So there is a restatement of that in the previous guidance.

**Ajay Seth:**

Yeah that's right. I don't think there is a drop in other income, it has actually gone up from 78 crores to 96 crores.

**Mohan Bej:**

Okay. I messed up because -- you know -- so what is the restatement on account of?

**Ajay Seth:**

This is just the operating income and the non-operating income being segregated. Now this other income that you see here is the non-operating part.

**Mohan Bej:**

Can you provide the numbers for previous quarter, June quarter similar one?

**Ajay Seth:**

The quarterly results, 78.56 crores for the half year -- for the quarter, for the 30th September 2007 and 96 crores for 30th September 2008.

**Mohan Bej:**

Okay. Thank you very much

**Operator:**

Thank you, sir. Next in line we have a question from Mr. Jamshed from Citigroup, please go ahead.

**Jamshed Dadabhoy:**

Yes. Good afternoon, sir. Can you all please explain the dichotomy between your sales, as in why are you all still seeing the A-Star -- I am sorry the DZire and Swift sales growing so rapidly, while there is a considerable amount of slackening at the entry level? Is it different geographies or is it a rural/urban issue? Can you just throw some light on that?

**Mayank Pareek:**

Yeah I will try to throw some light, whatever light I have on that. I think when problems like this crop up, inflation interest rate going up etcetera. It is our first go entry level customer who is affected. In entry level, almost 60 to 70% percent customers are first time buyers. And then something like this affects, they are the first people who really get out of the market, and they say okay let me defer my buying decision. That's why you see the decline in the entry level market.

**Jamshed Dadabhoy:**

So it's a postponement of demand, that's what you are saying?

**Mayank Pareek:**

Yeah

**Jamshed Dadabhoy:**

Okay. Thank you

**Operator:**

Thank you, sir. Next in line we have a question from Dalpat Shah from Quantum AMC Ltd. Please go ahead.

**Dalpat Shah:**

Good afternoon, sir. My question is basically for changes in depreciation policy. I mean, are we going -- or say will our CapEx amount will go up in future?

**Ajay Seth:**

There is a plan for capital expenditure, so the company will enter capital expenditure as per plan. In case of depreciation what happened in March '08 was that we changed useful life of assets from 13 years to 8 years -- between 8 to 10 years. This was more linked to changing technology, and you know, the models being phased out faster as we have seen in Europe and other countries, so inline with that we change our depreciation policy/

**Dalpat Shah:**

Yeah, exactly. But following that, since you are reducing the life of the plant--

**Ajay Seth:**

Right

**Dalpat Shah:**

-- so in future that -- can we conclude that you are going to spend on the CapEx also after eight years of life or after six years of life?

**Unidentified Speaker:**

I mean the whole thing is around that if technology changes obviously there will be a new capital expenditure. If technology continues, and it may continue for some longer period.

**Dalpat Shah:**

Okay. And sir, earlier you had mentioned that A-Star will first be launched in the global market, and following that will be launched in India. Now it is just reverse. So I mean, you have some sense of some slowdown in global market or something?

**Shinzo Nakanishi:**

I think, we told that this model mainly as you know, for the exporter, if you know, the as you know, [inaudible]. We said so. But as you know, other one, we don't say for others.

**Mayank Pareek:**

We never said that this will be launched in for overseas market first and export. What we said, as our MD is saying is that predominantly this is the market, which will fulfill the aspiration of European market.

**Dalpat Shah:**

Okay. Thank you very much, sir.

**Operator:**

Thank you, sir. Next in line we have a question from Srinivas Rao from Deutsche Bank. Please go ahead.

**Srinivas Rao:**

Thank you, sir. This is Srinivas here. Two questions, one on the marketing side and maybe Mr. Mayank can answer. You still see Omni sales being quite strong. Could through some light as to who buys them -- you know, it's pretty intriguing kind of run rate we have there. My second question relates to the Forex impact in the second half once we have pretty dramatic increase in you're A-Star exports. What is the localization content of A-star? Will the impact be -- net impact be similar to what you are seeing in the first half?

**Mayank Pareek:**

Okay. I will take the first question. Omni sales -- yeah, it's a great product. So sales are good. But actually on a serious note, even in Omni we see there a little weakness. Normally we should have seen some growth 7-8%, but it's almost flat this year. That's seen on this model also. It's not an aberration, it is the normal marketing situation.

**Srinivas Rao:**

Okay. And so, the second one.

**Ajay Seth:**

On the foreign exchange that -- first of all, the localization content in all our models is high and so -- with the A-Star, now on -- so therefore we will really be -- will be looking at the realization side. And fortunately dollar is -- rupee is in our favor at this point in time as far as exports are concerned. Does that answer your question?

**Srinivas Rao:**

Partially said. I mean, if you can tell me that you have a huge increase in dollar revenues, but what happens to the -- I am assuming A-Star at least localization to start little bit lower than your average. So, proportionately it might also impact your cost line. So, net impact of -- once the A-Star is launched, will that be more than what you are seeing in the first half?

**Unidentified Speaker:**

I think when we have done the project report and we have been doing all updates and all of the exchange variation, we are keeping track of all this to ensure that all this is taken into account.

**Srinivas Rao:**

Okay. Okay, sir.

**Operator:**

Thank you, sir. Next in line, we have a question from Mr. Manish Gupta from BNP Paribas. Please go ahead.

**Manish Gupta:**

Just one question; given the -- that the light that you have given on commodities and the impact of currency on your margins, would it be safe to assume that the EBITDA margin

that we have seen in this quarter would be the trough to look at and starting here going into the second half of FY '09 we will see sequential improvements?

**Unidentified Speaker:**

We cannot give you any guidance at this point in time. We have said that this year will be a bit of a tough here for us. However, we are working on our own cost reduction plans to ensure, to recoup whatever margins we can. And hopefully, if the commodity prices, the way they are easing can bring us some positive results. In fourth quarter, things should look up, but we cannot give any guidance at this point of time.

**Srinivas Rao:**

All right. Thank you.

**Operator:**

Thank you sir. Next in line we have a question from Ms. Vaishali from Angel Broking. Please go ahead.

**Vaishali Jajoo:**

Just a small outlook I would like to have on your export sales. I mean you are targeting your export next year, I mean, if I look, 10 would be 1,00,000 units in European markets. In this type of turmoil in those markets, how do you see the scenario going ahead?

**Shinzo Nakanishi:**

Well, actually today and yesterday we are receiving some European journalists for making the brief driving of this A-Star, then about 100 journalists and I don't know, which day or [inaudible] coming here. And their feedback was quite good. So I have quite confidence that they are receiving several -- they're selling this A-Star in Europe quite well. And also the -- I can't say the number, but because we're still in discussions with Nissan, but they are saying that you know, after seeing the vehicle, their eagerness is increased, so they asked to increase their number. So from those points of view, we have a confidence of the sales of this model.

**Vaishali Jajoo:**

Okay. So you still continue to be hopeful for those numbers?

**Shinzo Nakanishi:**

Yes, yes.

**Vaishali Jajoo:**

Okay. Thank you.

**Operator:**

Thank you ma'am. Next in line, we have a question from Mr. Jinesh Gandhi from Motilal Oswal. Please go ahead.

**Jinesh Gandhi:**

Hi, so my question is on your raw material costs. You mentioned that you expect that to moderate by fourth quarter, but on the other side, we have demand of around 20% increase in steel price from Nippon Steel, so do you expect that increase coupled with impact our total benefits?

**Unidentified Speaker:**

Steel. You know the percentage of steel in our total commodity is quite high. So obviously, if the increase of the steel happens, then on the whole, it will end up [inaudible].

**Jinesh Gandhi:**

Okay. So, but are we negotiating for lower price hike or are we looking at other vendors for this?

**Unidentified Speaker:**

Absolutely. We are not only negotiating for lower price hike, as well as, we are also trying to do a very aggressive cost reduction of these by improving the yield of our materials.

**Jinesh Gandhi:**

Okay, okay. And so secondly on your Manesar plant, would you be able to share the production from Manesar in this quarter vis-à-vis last quarter?

**Unidentified Speaker:**

This is Rahul here. We'll get back to you in a minute.

**Jinesh Gandhi:**

No problem, no problem. That's all from my side. Thanks.

**Operator:**

Thank you, sir. Next in line, we have a question from [Mr. Amit] from Reliance. Please go ahead.

**Amit:**

Good afternoon, sir. I just wanted to clarify the things which you said about the MTM. The total MPM on ECB is around 50 crores for the first half and 20 crores was in the first quarter and 30 crores in the second quarter and is it being routed through P&L in other expenditure in this quarter?

**Ajay Seth:**

Yeah, I mentioned to you, it's 50 crores, but some was taken in the month of March '08

**Amit:**

Okay

**Ajay Seth:**

And then in the first and the second quarter. In the first quarter, it was 10 crores and then in this quarter it is 30 crores.

**Amit:**

30 crores. Sir, second question which I have is about the royalty, how is the royalty on our new products right now, vis-à-vis of the older products and which are the models where we don't pay royalty?

**Ajay Seth:**

Currently, on car and Omni, we do not pay any royalty. Other than that we pay royalty on all other models.

**Amit:**

Can you share a percentage?

**Ajay Seth:**

Royalty is paid as per the RBI formula, which is 5% on which we pay royalty.

**Amit:**

Okay. Okay. Thank you, sir.

**Operator:**

Thank you, sir. Next in line we have a question from Mr. [Rajat Malhotra] from Franklin Templeton. Please go ahead.

**Rajat Malhotra:**

Yeah, I just wanted a little bit of clarification on the raw material side that you had mentioned that Q4 is probably going to see -- you get benefits of the non-steel price reductions. When do you expect steel benefits to come through for Maruti?

**S Maitra:**

You know on that we really cannot say because we'll have to -- this second half, it is definitely not going to come. It's only we are going to see again in the next years that how the prices move.

**Rajat Malhotra:**

This contract with Nippon Steel will be renegotiated in other six months time, is that right?

**S Maitra:**

Yeah. That's right. I mean, it is going to be only for the six months in the second half.

**Rajat Malhotra:**

All right. Thanks.

**Operator:**

Thank you, sir. Next in line we have a question from Mr. Sonal Gupta from UBS. Please go ahead.

**Sonal Gupta:**

Thank you. I just wanted to get a better sense on what does the other operating income comprise of, if you could just shed some light on that?

**Ajay Seth:**

A large portion of this would be things like scrap sale, and sales tax benefit, and cash discounts on earlier payments to vendors that we make.

**Sonal Gupta:**

Okay. Thanks a lot. Thank you.

**Operator:**

Thank you sir. Next in line, we have a question from [Ms. Poonam from Lorieal Securities]. Please go ahead.

**Poonam:**

Hello. Good afternoon, gentlemen. My question was on A-Star, which has already been answered. Thank you.

**Operator:**

Thank you, ma'am.

**Unidentified Speaker:**

Manisha, can I ask some questions.

**Operator:**

Definitely sir, you can go ahead.

**Unidentified Speaker:**

Sir, I had a question on the capacity expansion that you are seeing in the industry, given all the turmoil that we are seeing and all the problems that the global auto manufacturers are facing worldwide. Is there a chance in your experience -- have you seen a period where people might postpone their plans of entry into a new market like India, and therefore, you know, capacities get delayed?

**Shinzo Nakanishi:**

We, right now, Manesar plant as you know, this March -- next March, the capacity will reach 300,000 units. But I believe that [inaudible] Manesar we have a Gurgaon plant as well. Then as you know -- I believe, you know, generally our production people, engineering people have some room to increase by productivity up. So I hope within this capacity if the demand is mass, then we can manage it. I hope our production, engineering with money.

**Unidentified Speaker:**

Actually I was asking about your competitors which are going with specific names. We have heard big plans of others. In your experience and given the way the industry is, is there a chance that some of your competitors might postpone their plans?

**Shinzo Nakanishi:**

I can't make any comment about the other competitors. I don't know.

**Unidentified Speaker:**

Okay. Thank you.

**Operator:**

So shall we go ahead for the next question?

**Unidentified Speaker:**

Yes please.

**Operator:**

Next in line we have a question from Mr. Sachin from [inaudible]. Please go ahead.

**Sachin Lele:**

Hi this is Sachin Lele. Hello?

**Unidentified Speaker:**

Hello. Yes.

**Sachin Lele:**

I just want to ask one question regarding your A2 segment volume. What will be the composition of Alto and Swift in total domestic sales?

**Mayank Pareek:**

Actually normally we give total segmented volume, but let's say Alto will be around 30% of the A2 segment volumes.

**Sachin Lele:**

Okay. And sir, what may be about Swift?

**Mayank Pareek:**

It will be around 10,000.

**Sachin Lele:**

Okay sir. Thanks a lot.

**Operator:**

Thank you sir.

**Rahul Bharti:**

Manisha, we can have one last question please.

**Operator:**

Definitely, sir. Next in line we have a question from Mr. Kunal Bhatia from Dalal & Broacha.

**Kunal Bhatia:**

Yes. Thank you sir. All my questions have been answered.

**Operator:**

Thank you, sir.

**Rahul Bharti:**

Manisha, we had one question regarding the Manesar production. Our production in this quarter was about 47,000 units as compared to 32,000 units in the last year same period.

**Operator:**

Thank you, sir.

**Govindarajan Chellappa:**

Yeah, Manisha, if there are no further questions, we can close the call.

**Operator:**

Right sir. At this time we don't have any more questions. So shall we go ahead and conclude the call sir?

**Govindarajan Chellappa:**

Yes.

**Operator:**

That does conclude our conference for today. Thank you for participating. You may all disconnect now.