

Maruti Suzuki India Limited

Quarter 1 - FY'09 Financial Results Conference Call
July 22, 2008

- Moderator: Good morning, ladies and gentleman. I am Sandhya, the moderator, for this conference. Welcome to the Maruti Suzuki India Limited Conference call hosted by ICICI Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to International Bridge. After that, the question and answer session will be conducted for participants in India. I would like to hand over to Ms. Shilpa Gupta, thank you, and over to you ma'am.
- Ms. Shilpa Gupta: Thanks, Sandhya. On behalf of ICICI Securities, I would like to welcome you all to Maruti Suzuki's Q1-FY '09 results' earnings conference call. We have with us the top management of the company to comment on the result as well as share their outlook for the rest of the year. After that, we would have the Q&A session. I would now handover the call to Mr. Kanwaldeep Singh, over to you sir.
- Mr. Kanwaldeep Singh: Thank you, Shilpa. Good morning ladies and gentleman. Thank you indeed for joining us today in this conference call. We have with us our leadership team comprising our Managing Director, Mr. Shinzo Nakanishi; the Executive Officer for Marketing and Sales, Mayank Parekh; Chief Financial Officer, Ajay Seth; and other members of the senior management. We will initiate this earnings' call with an overview on 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. I now invite Mr. Nakanishi. Over to you sir.
- Mr. Shinzo Nakanishi: Thank you, KD. Good morning ladies and gentleman. Thank you for joining this conference call. Normally, we have out conference call only after the half year and annual results, but given the recent macro-economics development, we felt that you would have more questions for us and may like to get our views of the situation. I hope this interaction is useful for you. I will begin the discussion

with a forward view of the quarter. The development in the macro-economy impacted our industry on several fronts. As global crude oil prices touched all-time high levels, fuel prices in the domestic markets were raising in June. With inflation mounting and central bank increased interest rates and took several measures to reduce liquidity, availability of finance was a challenge, especially in tier-2 cities and below. The downward trend in the stock market impacted sentiments. In spite of these challenges, the domestic passenger car industry managed a volume growth of 12% in quarter one. Maruti Suzuki's domestic sales grew at the same pace as the industry. Including exports, we posted a volume growth of 13.5% over the first quarter last year. This was driven by A2 and A3 segments. In the A2 segment lead by Swift and Wagon R, we grew 13.6%. In the A3 segment, Maruti Suzuki grew faster than industry at 44%. Our share increased it to 26% in this segment.

I would now come to our financials. You may have noticed that total income has increased by 21%. Net profit was 4659 million rupees, against 4996 million rupees in the same period of last year. We were impacted by the sharp increase in raw materials price, so we increased price for our car we made. We were not able to pass on the entire hike in prices of steel and other commodities like aluminum and rubber. The weakening of the rupee also impacted us adversely. While appreciation of dollar against rupee improved our export realization, the appreciation of yen against the dollar impacted us adversely. Being a net importer at this point, the weakening of the rupee has impacted the company by 743 million rupees compared to the same period last year. We had shared with you last time that the company adopted a more stringent depreciation policy. Due to this change, additional depreciation of 619 million rupees had to be charged off in the first quarter. While our Gurgaon plant runs on natural gas, the Manesar facility uses diesel. Hike of diesel price has increased our cost. Finally, sales promotion cost went up in the overall market impacting us as well.

Let me now turn to our outlook. I expect all these factors to continue impacting us in the near term - high commodity prices, interest rates, credit restrictions, and discounts are likely to remain as challenges during the rest of the year. We have to accept these macro factors as given; however, from a slightly longer term perspective, our expansion plan remains on course. Recruitment of people, expansion of network, and capital investment is as per plan. There are no cut backs of any kind in these areas. In the meantime, we are taking several measures within our operation to

minimize the impact of macro factors. I would like to share some of these measures with you. Our cost reduction programs will help us reduce the impact of higher commodity prices to some extent. We have enhanced the focus on value analysis and value engineering program and started new campaigns like One Gram One Component through which we will reduce weight and drive efficiency. We are also examining reduction in fixed costs. In an overall subdued market, our model Swift and Dzire continue to show strong demand. We are making efforts to step up the production of these 2 models and meet customers' orders. At the time of high fuel prices, the fuel efficiency of our models is a competitive edge, and we are communicating this aggressively through national campaigns and field events. Also demand sentiment is currently subdued. There are potential positives like salary hike for government employees, deduction in income tax, and strong rural demand on account of good cover. We adhere to take advantage of these opportunities. While export volumes are low relative to domestic sales, any improvement on margin on the export front will also contribute to our bottom-line in future quarters. We are looking forward to our exciting new model A-Star which will be launched by the end of this year. By then, the company will have a total production capability of 1 million cars. While we remain positive for the long term, our efforts in the short term will be to do all we can to minimize the impact of external factors. Ladies and gentleman, I thank you for your interest in our company and hope for continued support from you going forward. On this note, I would like to invite any questions you wish to ask. Thank you.

Moderator: Thank you very much sir.

Ms. Shilpa Gupta: Sandhya, you could now begin the Q&A session.

Moderator: Yeah, sure.

Ms. Shilpa Gupta: I would request all the participants to keep their questions concise and speak clearly. Sandhya, we could begin the session now. Thanks.

Moderator: Sure, ma'am. Thank you very much sir. At this moment, I would like to handover the proceedings to the international moderator to conduct the Q&A for participants connected to the International Bridge. After this, we will have a question and answer session for participants at India bridge. Thank you and over to you, Zaini.

International

Moderator: Thank you, Sandhya. We will now begin the Q&A session for participants connected to the international bridge. Please press 01 to ask a question. Once again, participants with a question, you may press 01 now. At this moment, there are no further questions from participants at the international bridge. I would like to hand over the proceedings back to Sandhya. Over to you, Sandhya.

Moderator: Thank you very much Zaini. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First question comes from Mr. Mahantesh from Centrum. Over to you, sir.

Mr. Mahantesh: Good morning, sir. One question about your performance in the quarter, we noticed the margin is very weak. My question is related to the pricing of your products – what is the year-on-year impact of the price increases that you have taken on your product in terms of your absolute rupee impact for the quarter, number one; and number two, would you take a price increase in the later half of the fiscal year to ward off the cost pressures that are building up.

Mr. Ajay Seth: Okay, this is Ajay Seth. I will take your first question. The year-on-year quarterly impact of the price increase has been about 70 crores, that is what we have been able to realize through the 2 price increases that happened in this period. The impact of price increase, as Mr. Nakanishi mentioned in his opening speech, is not adequate to take care of the kind of raw material price increases that we have seen over this period in time.

Mr. Mahantesh: So would that necessitate a further round of price increase?

Mr. Shinzo Nakanishi: Okay, I will be frank about the price increase. The commodity price and pressures come to us. However, we are trying to maintain our price as long as possible by way of the cost reduction activities like One Gram One Component reduction of the weight and cost. And we are doing the yield improvement also to absorb the hike of the steel price.

Mr. Mahantesh: But sir, your raw material price increase has been something like almost 150 crores whereas your recovery is

only half that amount, would you not do a price increase further?

Mr. Shinzo Nakanishi: Yes. As long as we can bear those cost, we want to keep the price.

Mr. Mahantesh: Right sir, thank you very much.

Moderator: Thank you very much sir. Next question comes from Mr. Bala from Morgan Stanley, over to you sir.

Mr. Bala: Good morning Sir.

Mr. Shinzo Nakanishi: Good morning.

Mr. Bala: I have a question on the overall industry status, if you look at it the capacity which is coming on stream in the industry, whether it is from Maruti or from Hyundai or from GM or from newer players like Volkswagen, we are going to see a steady stream of capacity coming in and given the current scenario, given the current macro conditions, would it be possible for you to increase prices, I think given at least my experience says it is very difficult to pass on price increases when the demand is coming down, so would Maruti's aim would be to maintain the volume growth or would it be more towards maintaining your profitability.

Mr. Shinzo Nakanishi: Yeah, we have to watch the market very carefully and of course, as I said, there are many challenges in the macro economic environment. Those are giving the impact to the market itself, but as you know, we are thinking household incomes are growing and we believe long-term demand for cars will grow, and we will be concentrating on using our strength to push sales. For example, we are trying to increase the production of Swift and Dzire and right now, we are very sorry for our customers who have been asked to wait a certain period. We should resolve the unsatisfactory situation as quickly as possible, and we will aggressively communicate Maruti Suzuki's fuel efficiency advantage. We have a big network and as you know, our people can easily reach to more customers. We are going to introduce A-Star by the end of this year, this will help us to impact market and our volume and our growth as well.

Mr. Bala: Okay, one follow-up question on that – given the fact that we are so focused on getting our exports up and running, could you just share some information on how significant this new model is for Suzuki to increase its penetration or market share in Western Europe as in what would be the current market share of Suzuki, what would be its target going forward by utilizing this product from Maruti?

Mr. Shinzo Nakanishi: You are talking about A-Star?

Mr. Bala: Yes.

Mr. Shinzo Nakanishi: Okay. As you know, Europe is a mature market, so you know, it is not easy to penetrate even if we bring the new model into the European market. However our European distributors are very happy to get the entry level car from India so this is completely matching of their desire. I hope we can reach what we have announced - by 2010 2 lakhs exportation, including other model as well.

Mr. Bala: Okay, thank you sir.

Moderator: Thank you very much sir. Next question comes from Mr. Ambrish from MF Global, over to you sir.

Mr. Ambrish: Yeah, good morning everyone. Just wanted to understand if the selling and distribution expenses which have gone up by 100 basis points as a percentage of sales, if there is anything non-recurring and may not, you know, come across from coming quarters?

Mr. Ajay Seth: Okay, selling and distribution expenses would have 3 large components in it. One is the advertisement cost. Second is the freight we incur on exports and domestic, and third is the warranty cost. There have been some increases in the advertisement expense. There is a large increase in the transportation and distribution expense but, you know, it is like taken as an expense here but at the same time recovered from our selling price. So since the exports have gone up, you know, this expense has become large in this quarter, so you really have to net off 50 crores of, you know, freight which is also netted off from the selling price which means essentially recover that from our selling price.

Mr. Ambrish: Which means if I look at FY '10 when our exports are going to be significant, does this factor continue to impact the margins?

Mr. Ajay Seth: Yeah, you will find higher freight cost this year because the exports will be higher, and it will be even more steep next year but it will also have a corresponding impact on the topline where you will find recovery being made so on one hand the contributions will improve and on the other hand, this expense will go up.

Mr. Ambrish: And sir, wanted to check on the non-recurring or say non-operating other income – can you just give us more idea

about where has it come from and what was the investment book as on March 08 compared to March 07?

Mr. Ajay Seth: See the broad breakup of other income is 222 crores of our other income has come in regular investments that we have in mutual funds and deposits, right?

Mr. Ambrish: Right, right.

Mr. Ajay Seth: And the balance of about 70 crores has come from operational activities a large part of it coming from scrap sales, some of them coming from things like sales tax benefit. The investment book size as of June 30th 2008 was 4850 crores which was up from 3800 crores in the same period of previous year.

Mr. Ambrish: Right, and sir, finally, just wanted to check what actually can change for Maruti from hereon so that we bounce back to a margin of say 11.5% to 12% if at all?

Mr. Ajay Seth: There are a variety of things that are happening, see we have talked about pressures on commodity on the one hand and also the distribution or the promotion cost going up, but at the same time, MD in his opening remarks mentioned that we are working out on internal efficiencies and cost reduction programs, not only on the expense side but also on the material side which is a significant portion of cost to us. Now the endeavor will be how much can we contain by, you know, implementing the measures that we are working on at this point in time and that's where the real test lies.

Mr. Ambrish: Okay. Thanks a lot, sir.

Moderator: Thank you very much sir. Next question comes from Mr. Srinivas from Deutsche Bank, over to you sir.

Mr. Srinivas: Thank you very much, sir, Nakanishi and Mr. Mayank Parekh, this is the question for you. One is what is the current share of finance in terms of vehicles being financed, and secondly sir, what is the share of imports in terms of your raw materials basket as in what is the current state of localization for the company as a whole and as an adjunct question I mean are the steel price contracts kind of signed for this year or we have any other kind of contracts pending?

Mr. S Maitra : See on the steel contracts, probably we have a contract for 6 months so we have already concluded the contracts from April to September and obviously the next contracts are going to come up and we will start negotiations sometime

in the month of September for settling from October to March.

Mr. Srinivas: Yeah.

Mr. Ajay Seth: For the other one, I would request Mr. Parekh to answer the question for you.

Mr. Mayank Parekh: Well regarding the share of finance, it fluctuates between 70% to 75%.

Mr. Srinivas: And sir, has it gone down in the first quarter related to the current rate?

Mr. Mayank Parekh: No, it is fluctuating between the 70% to 75% range.

Mr. Srinivas: And finally the share of imports?

Mr. Shinzo Nakanishi: As you know, our localization ratio for all models over 90% therefore import share in fact is not much but raw materials still and like, you know, the bare metal, rubber, those are the ones, even the Indian vendor import or use it via some import, therefore, those factors are bigger than, you know, our import KD kits cost.

Mr. Srinivas: Okay, sir, thank you very much sir.

Moderator: Thank you very much sir. Next question comes from Ms. Poonam Sharma of HSBC Mutual Fund, over to you ma'am.

Ms. Poonam Sharma: Hi, I have just 2 questions. Just wanted to know employee expenses this quarter is about 111 crores, is this some kind of one-off in that or is that going to be the phenomenon going forward?

Mr. Ajay Seth: I think if you are looking at the first quarter of the previous year and the first quarter of this year there will be a difference because we were, you know, ramping up capacity at Manesar and in that year, we also had initially an action to set up an engine and a casting plant in Gurgaon.

Ms. Poonam Sharma: Okay.

Mr. Ajay Seth: So there had to be additional manpower for these 2 activities.

Ms. Poonam Sharma: Okay.

Mr. Ajay Seth: And the bulk of the manpower actually has gone in these areas and the other of course is engineering. So, there has been an increase in the number of employees.

Ms. Poonam Sharma: Okay and also just wanted to find out about steel prices. In the last con-call, you had indicated that the steel companies have asked for a 30%-40% hike in steel prices but nothing was confirmed as of then. What is the status of now, how much has it been finally increased?

Mr. S Maitra: Initially, these people had asked for a 40% hike of which we were able to negotiate around 24% - 25% level.

Ms. Poonam Sharma: A 24%-25% you were able to negotiate and the mix of imports-exports for steel, how is that for you guys?

Mr. Ajay Seth: See right now, you know, we have about 40% which is coming in from the Indian sources. This is I am talking about steel which we are using in-house, you know, which we are using in the factory. And the 60% is coming in from abroad. Whereas as far as the vendor components are concerned, there we are using 100% local steel.

Ms. Poonam Sharma: Okay, okay, and also just coming to the depreciation number which is at about 166 crores, you said that about 61 crores is as a result of the change in the policy which you did in Q4 of 08 so does that mean that on a recurring basis, it should be about 100 crores and you are done with the back-ended accounting of the change depreciation policy?

Mr. Ajay Seth: No, first of all, there is no back-ended change of depreciation policy. We had mentioned I think a few times earlier also that the life of assets has been reduced from X to Y, right? Because of that the depreciation for the next 3-4 years is going to be raised. That is there will be an additional hit of anywhere between 240 crores to 260 crores each year.

Ms. Poonam Sharma: Okay, okay, thank you so much, sir.

Moderator: Thank you very much sir. Next question comes from Mr. Amol Batra of Edelweiss Securities, over to you sir.

Mr. Amol Batra: Hello sir, I had a question regarding the total import bill of the company, you know, if I just back calculate the impact of the currency movement, that is, the yen movement as well as the dollar movement, you know, which comes to around 75 crores, as mentioned in your presentation, the total imports would be around 12% of the net sales, so am

I on the right track here, total import would be 12% of the net sales?

Mr. Ajay Seth: Yeah, that's right.

Mr. Amol Batra: Yeah, so sir, do we have any hedging strategy in place since the yen movement going forward would have a significant impact on the company's margins, so do we have any hedging strategy in place there?

Mr. Ajay Seth: We on a continuous basis look at forward rates and they cover us for at least a quarter if not more and trying to see if that if we can protect at least, you know, what rate we have in mind in terms of our initial budget, so there is a policy for a quarter where we on a continuous basis keep a track on currencies and at appropriate times, take covers.

Mr. Amol Batra: And talking about the other income as you said the investment book, if I got that figure right, was around 4280 crores as of March 2008?

Mr. Ajay Seth: March 2008 was slightly higher, it was over 5000 crores..

Mr. Amol Batra: Okay, okay, over 5000 crores, so sir, year-on-year the yield on investments have gone up significantly, so you know, it comes to around if I analyze the same number, it will come around 14%-15%, so are we making that kind of yields, I mean, on 07 as well as has it gone..?

Mr. Ajay Seth: We have a combination of short term and long term investments. So yields would vary between short term and long term but surely, we make yields over 12%.

Mr. Amol Batra: Okay, so is there any particular reason that the yields have been higher in this particular quarter or you think this trend will continue for the rest of the year?

Mr. Ajay Seth: Obviously since the interest rates are on the rise, the yields would continue to be better and also the income is higher because the book size has gone up considerably compared to June of last year.

Mr. Amol Bata: Okay, fine, thank you sir.

Moderator: Thank you very much sir. Next question comes from Mr. Vineet from B&K Securities, over to you sir.

Mr. Vineet: Mr. Seth, I have a couple of questions. One is pertaining to the raw materials cost – how much increase we have given to our vendor on an average during the quarter and whether that suffices for the complete demand from the

vendor? And the second question is related to our exchange losses and realized exchange losses..

Mr. S Maitra: See as far material cost is concerned. I mean as and when the cost goes up, you know, these vendors come back to us and then they demand and then we go in for a negotiation and then we decide it for a period of 6 months, so that is the method which we follow like in case of steel, you know, steel went up in the month of March, so therefore ultimately after negotiations, we have given this increase from the month of March. Similarly, now rubber is going up and therefore the tyre vendors have come up to us and they have been asking for that and we have been negotiating with them. So therefore, there is not a definite time, you know, when we will give the increase so whenever in the market the commodity prices will go up, you know, we would negotiate in here.

Mr. Vineet: But how much increases you have given during this particular quarter, particularly because the increase in the steel prices is there?

Mr. S Maitra: It is almost coming to about 2% of our buying for which we have given the increases.

Mr. Ajay Seth: See increases could be more than 2% but the way to look at it really is that there will be increases of raw materials on various grounds or for the ground of exchange rate fluctuation where the vendors are also affected..

Mr. Vineet: Yeah.

Mr. Ajay Seth: But then there will also be some cost reductions that they would have also done simultaneously in this quarter, so I think when you look at the overall thing, you see a net impact of 2.4% quarter-on-quarter but it will be a combination of various things. No, it is very difficult to quantify by a metal how much increases have been given to various vendors.

Mr. Vineet: No, I just wanted to know actually what is the average kind of increase which a vendor has got...

Mr. Ajay Seth: I can only tell you in steel we have given an increase of 6000 to 8000 rupees per model.

Mr. Vineet: Okay and another question related to our unrealized losses on the Forex cover, so this amount just pertains to the export cover which you have taken on the future exports program or even the ECB is covered under that?

Mr. Ajay Seth: No this is purely on the exports covers. No, ECB is all marked-to-market.

Mr. Vineet: ECB is all marked-to-market and that ECB we have clubbed that into the rupee loan I believe? So it is basically a counterpart default risk which we are carrying there?

Mr. Ajay Seth: No, there is no counter party default risk, it is basically the differential because we have taken a currency swap and we have taken an interest rate swap. So it is because of the interest rate differential that you have to provide for marked-to-market.

Mr. Vineet: Okay sir, thanks sir.

Moderator: Thank you very much sir. Next question comes from Mr. Sachin from CRISIL, over to you sir.

Mr. Sachin: Good morning sir. What I wanted to ask was that the steel prices as well as the aluminum prices and the cast iron prices have all gone up this time, say by 24%, 10%, and 55% respectively, so going ahead when the vendors come back to you so is it that only after 6 months like you have already answered the question for BNK Securities, but what I wanted to ask was every time when these vendors come under pressure would you be going in for increase in prices for the components?

Mr. S Maitra: See normally what happens is if the pressure is too much and we are still negotiating, sometimes we also give them an ad-hoc entry, you know, till the time that the final prices are settled because right now what we are doing is we are also trying to bring in a concept of pain sharing and on this pain sharing, a lot of negotiation goes on and in the meantime, if the pressure is high, then we sometimes give them ad-hoc entries as well.

Mr. Sachin: Is this usually done for all the components or for specific players?

Mr. S Maitra: This is where ever the commodity prices go up substantially, only in those cases, it is done.

Mr. Sachin: So, sir on an average basis last year, the raw material cost per vehicle was around 1,84,000 which we would expect it to go up by almost, say, 20,000 to 30,000 per vehicle?

Mr. Ajay Seth: No, no. I think 20,000 to 30,000 rupees per vehicle would put us in to a nowhere situation. See the way to look at it is that how much increase is happening as Mr. Maitra mentioned to you just now on account of commodity, right?

Mr. Sachin: Yeah.

Mr. Ajay Seth: On the contrary, there is something that we also do every quarter which is the cost reduction so net of that what is the increase that we have actually given to a vendor, mix would also have a play, you know, what mix we are selling in a particular quarter.

Mr. Sachin: Yeah.

Mr. Ajay Seth: So if you really see your sales realization minus your material cost, you should not have an impact of more than 2.4% or 2.5% in a quarter which means that if your effective realization is 2.5 lakhs per vehicle, then your impact really should be about 5000 to 6000 rupees per vehicle in terms of increasing costs put together.

Mr. Sachin: So that would mean some of it would be shared by the customer, some of it would be shared by the vendors, and the rest would be shared by Maruti?

Mr. Ajay Seth: Sure, I mean, that is the way it works. Some you take on by way of price increases which we have done on past 2 occasions, some we do through cost reductions, and somewhere vendors improve their productivity and you know, reduce costs. So it is a combination of various things.

Mr. Sachin: Okay, sir but then sir, how much of this would be really useful when the commodity prices have gone up by like 55% like in case of iron?

Mr. Ajay Seth: First of all, you have to relate commodity prices with the actual metal buying. What is the proportion of metal buying to the overall purchases the company makes?

Mr. Sachin: Right.

Mr. Ajay Seth: So 55% could be very large in relationship to 100% but could be very less when you relate it with 20% or 15% of metal buying, right?

Mr. Sachin: Right.

Mr. Ajay Seth: So with that, you have to then net off what extra efforts you have put in to cut down costs or improve productivity and then take the net impact.

Mr. Sachin: Okay. So the increase in base metal prices and the increase in the prices of the components that you are buying, would that be the same?

Mr. S. Maitra: Just repeat your question please?

Mr. Sachin: Say the cost has gone up by 24% in steel. So price for your components would go up by the same amount or...?

Mr. S. Maitra: Yeah, Ajay let me explain, you know, for instance you know the natural rubber prices are going up right now, now the tyres people come to us, now this natural rubber in a tyre is only to the extent of 24% so obviously the component price should not go up totally. It will be only 24%. So therefore to the extent that constituent is there in that component, only to that extent the price will go up.

Mr. Sachin: Okay. Thank you, sir.

Moderator: Thank you very much sir. Next question comes from Mr. Pramod Kumar of BNK Securities, over to you sir.

Mr. Pramod Kumar: Yeah, good morning everyone. Sir, in your filing with the stock exchanges you have mentioned that the Forex loss which has been booked in the P&L is around 139 million but the same during the presentation is 179, which is the correct one, sir?

Ajay Seth: Yeah, hello. See the foreign exchange part that you were asking mark-to-market losses, there are basically 2 components- 13.9 is what we have reflected which is though mark-to-market..

Mr. Pramod Kumar: Yeah.

Mr. Ajay Seth: And on the hedge accounting, there is a loss of 4 crores, so if you add the two, it is 17.9.

Mr. Pramod Kumar: So the actual amount is 17.9 crores?

Mr. Ajay Seth: That's right.

Mr. Pramod Kumar: And sir another thing regarding our launch of A-Star, earlier we had indicated that we will be hitting the market by around October, so you said it is by year end, so I believe we are still sticking with October, right, for the domestic market?

Mr. Mayank Pareek: As Mr. Nakanishi said in his speech, we are looking forward to launching A-Star towards the end of the year.

Mr. Pramod Kumar: Okay fine, okay, and sir with Nissan is there any further clarity as to what is their quantum which will be A-Star which we will be supplying to them as well?

Mr. Shinzo Nakanishi: Well, we are still negotiating and talking with Nissan people, but I hope they will take about 10,000 to 20,000 units.

Mr. Pramod Kumar: Okay sir, fine and best of luck, sir. Thank you.

Moderator: Thank you very much sir. Next question comes from Mr. Keerthan Varun of Brick Securities, over to you sir.

Mr. Keerthan Varun: Yeah, hi, good morning sir. I just wanted to ask one question regarding your stock management which has been in a positive number in this quarter as compared to the last year's, as I wanted to know, you know, under the scenario of rising raw material prices, how come, you know, the change in stock is positive. Ideally, it should be a negative number, yeah.

Mr. Ajay Seth: The change in stock is a reflection of your work in progress and finished goods movements. And the increase and decrease is what is reflected here really.

Mr. Keerthan Varun: Okay.

Mr. Ajay Seth: So if there is a decrease in stock, then obviously the number would be positive and if there is an increase, it will be negative. So the overall stocks compared to the same period in the previous year showed a decrease in stock.

Mr. Keerthan Varun: Correct. But sir, you know, one can infer that, you know, for the current quarter the production if you measure in terms of units, the production or there were stock lying at the, you know, the closing would be less than your opening stock and think that, you know, the company is seeing, you know, somewhat slowdown in the demand. Would we infer like that?

Mr. Mayank Pareek: Yeah, as far as network stock contains, it is within the normal business requirements, and we maintain our stocks in network as well as factory within the normal business requirements. It has gone up slightly by around 3000 units in the quarter compared to the beginning of the year.

Mr. Keerthan Varun: Okay, could you come again, sir?

Mayank Pareek: Our endeavor is to keep the stocks within normal business requirement levels and the stock compared to the beginning of the year has gone up by around 3000 units.

Mr. Keerthan Varun: Okay, thank you sir.

Moderator: Thank you very much sir. Next question comes from Mr. Ashutosh Goel of Edelweiss Securities, over to you sir.

Mr. Ashutosh Goel: Thank you. Just a couple of quick ones for me - What is the tax impact on the, you know, the dividend and investment income that you get, is it fully taxed or is it tax exempt because whenever we have seen a sharp jump in this, our tax rate falls down.

Mr. Ajay Seth: Yeah, see Ashutosh typically in the first quarter when you realize capital gains because lot of this money is coming through FMPs, where we have invested in mutual funds. With the indexation benefit, you get a very low rate of tax. So therefore you will, you know, typically see first quarter taxes being down. Because of this. It is not, you know, completely tax exempted, just the capital gains of 10% plus surcharge, that's about it. You know the waived off indexation benefit is even higher than we take that, otherwise it is 10%.

Mr. Ashutosh Goel: Okay, okay, okay, and second is, you know, we have this forward covers that we have taken towards our exports starting Q4 of this year. Can you share with us, you know, what is the amount of the hedge that you have taken, amount of covers that you have taken?

Mr. Ajay Seth: In terms of exposures, we are covered 50% of our Euro for this year and about 50% for the next year.

Mr. Ashutosh Goel: So 50% for the fourth quarter and 50% for the whole of FY '10.

Mr. Ajay Seth: Yeah, 50% for the fourth quarter and 50% for the whole of FY '09-10.

Mr. Ashutosh Goel: What would be the amount, sir?

Mr. Ajay Seth: I think quantifying in terms of overall numbers, that will be good enough but I don't have specific details at this point in time.

Mr. Ashutosh Goel: Okay. And just one last question, you know, I have been trying to look at, you know, kind of your employee productivity trend and, you know, for years we have been, you know, increasing production with declining manpower, but last couple of years we are seeing, you know, manpower from say FY '05 to today, we have almost doubled the manpower while production has gone up probably about 40%-45% odd. While I understand, you

know, some of them entirely got added in the, you know, engine plant and R&D, but I am still not able to reconcile this number. One would have expected, you know, with the new plant, it will be higher level of automation and therefore, you know, higher manpower productivity, am I missing something here?

- Mr. Ajay Seth: I think you are missing Manesar because Manesar was a large addition and when this capacity came up 1 Lakh and now being increased to 3 Lakhs, there was a significant increase of numbers there because now we are going up from 700,000 to 1 million capacity- That is one big reason for, you know, increase in numbers. Other than that of course, areas like engineering, etc., we have increased manpower but I think Ashutosh, the important thing to watch is, like we have already said, we would like to maintain our material costs to net sales at about 2% and that is what we have been measuring year-on-year. And I think we have been there almost all the times.
- Mr. Ashutosh Goel: Yeah, correct. How much would be the manpower at Manesar, if I can just get a broad idea?
- Mr. Shinzo Nakanishi: In Manesar right now, we have 1500.
- Mr. Ashutosh Goel: Okay.
- Mr. Shinzo Nakanishi: So these numbers increased to our total manpower, and as you say, our engine, new engine, we need manpower and as we promised, we are increasing the R&D area.
- Mr. Ashutosh Goel: Okay. Sir, just a very quick question – At Manesar, we are producing currently may be about, you know, 150,000 to 180,000 vehicles with 1500 people and at Gurgoan, I think our numbers is about say 3500 or 4000. For 600,000 production, so still it is, you know, looking a bit skewed, so again, you know, I am probably missing something.
- Mr. Ajay Seth: No, Ashutosh, first of all this, please keep in mind is for 300,000 production, okay?
- Mr. Ashutosh Goel: Oh, okay, okay.
- Mr. Ajay Seth: That's why, and then Gurgoan, we have now 5,900 people.
- Mr. Ashutosh Goel: Okay.
- Mr. Ajay Seth: In terms of man-hour, we keep a watch on hour per vehicle per etc.

Mr. Ashutosh Goel: No, where I was coming from is may be, you know, in the initial phases of a plant ramp-up is the productivity low is the point I was trying to get at.

Mr. Ajay Seth: Yeah, surely and that's the point we made in the last couple of years that when you are ramping up, your fixed cost will increase and will taper down once you get into a certain state. And we have said that once you see 300,000 being done from there, then you will really know the shape of Manesar.

Mr. Ashutosh Goel: Okay, so are you saying that at 1500 the Manesar plan is fully manned, and you would not need to add any significant number for ramping up from current to 300,000.

Mr. Ajay Seth: There could be some increase but there will not be such...

Mr. Ashutosh Goel: Yeah, proportionate. Okay, okay, great, thank you very much, sir.

Moderator: Thank you very much. Next question comes from Mr. Pramod from Enam Equity, over to you sir. Mr. Pramod, you can go ahead, please.

Mr. Pramod: Sir, this is with regard to yen issue- considering that it has formed a large chunk of your operating profit this quarter, any hedging you are planning to take forward or.. because the impact was seen throughout the year last but the disclosure was made only in this quarter considering the significance of the amount, so how will we be dealing with this going forward?

Mr. Ajay Seth: No, first of all, the disclosure was made because we have changed our accounting policy, and we have adopted AS-30 which was on hedge accounting. In the normal course in the earlier days or whatever forward covers we had taken would get reflected when you actually realize there or in case of imports, when you actually are paying up, right?

Mr. Pramod: Okay.

Mr. Ajay Seth: Now, you know, it is typically mark-to-market situation at a given quarter which can, you know, vary every quarter, in fact it varies every day but you know, at the end of the next quarter, you might find it to be totally different, but what we are saying is that we are hedged at a particular rate.

Mr. Pramod: Okay.

Mr. Ajay Seth: With a mark-to-market difference which the hedge accounting we have carried to reserve and in case, the situation changes next quarter, it can either get topped up or it can, you know, go down depending on where the exchange rate stands. We have taken a stance of at least ensuring that we are protected in terms of our rates that we want to safeguard for our exports.

Mr. Pramod: Okay, so that's on the exports side, what I was looking at was more on the imports side?

Mr. Ajay Seth: Okay, on the imports side, the company has a policy of taking a quarter's cover on yen and on each, opportunity that we get on a better rate on yen, we cover ourselves.

Mr. Pramod: Okay. But when it comes to your vendors, you work on a prefixed rate for the quarter, am I right?

Mr. Ajay Seth: Yeah, previous quarter rate for them is what we kind of fix for foreign exchange.

Mr. Pramod: Okay because if I had to look at, the impact was throughout from Jan to till June, so does this quarter involve any impact of the previous quarters?

Mr. Ajay Seth: This quarter will have an impact on the commodity prices. There will be some impact of foreign exchange as well which would have been, you know, passed on to the vendors because they exchange it at an amount.

Mr. Pramod: Okay, sure, thanks.

Moderator: Thank you very much sir. Next question comes from Mr. Ravi Mehta of Indsec Securities, over to you sir.

Mr. Ravi Mehta: Hello, yeah, good morning.

Mr. Ajay Seth: Yeah.

Mr. Ravi Mehta: Basically my question is that with the kind of rise in fuel prices, there is a possibility of, you know, customers in US and European markets switching to small and compact cars, so how big this opportunity would turn out for Suzuki and in turn what opportunity would come to India, Maruti Suzuki – if you could share some light on this?

Mr. Mayank Pareek: I think you are very right as our MD in his opening remarks, this rising fuel prices give us an opportunity that customers will increasingly prefer more fuel-efficient cars and we believe that Maruti Suzuki makes the most fuel-efficient cars in this country, so I think going forward, that's very

positive for us. After a short blip, I think in Indian markets we will have a big demand for small cars.

Mr. Ravi Mehta: And how about the exports basically – how would you be tapping those Europe and US markets, you know, with the small and compact cars demand coming up?

Mr. Shinzo Nakanishi: You know big car means overall 5 liter or other, so that, those are giant cars, those are impacted. And also even the 3-liter car or those passenger cars are also impacted. However, we Suzuki do not have such big cars but mainly the 1 Liter to 2 Liters one, then I think even in US these cars will go up in its popularity, especially goes in Europe as well and so in India as well I believe.

Mr. Ravi Mehta: Sir, have we evaluated this opportunity and then how big it could turn out to be or any views on things..

Mr. Shinzo Nakanishi: That's too early to tell.

Mr. Ravi Mehta: Okay. Yeah. Thanks.

Moderator: Thank you very much sir. Next question comes from Mr. Jamshed from City Group, over to you sir.

Mr. Jamshed: Hi, yes, 2 quick questions- on the A-Star, we are hearing that there is possibility of a diesel variant, any plans on this front?

Mr. Shinzo Nakanishi: We strongly requested to Japan, but no, unfortunately, no.

Mr. Jamshed: Alright. Thank you.

Mr. Jamshed: Alright. Thank you. Second question on the industry growth for FY '09 or 10, what is your expectation of what industry growth might pan out to be given the fact that, you know, it is becoming increasingly difficult to appoint new dealers because working capital for dealerships is becoming a constraint area as also real estate costs, so how do you think industry growth will pan out given this scenario?

Mr. Shinzo Nakanishi: It is a quite a good question. You know, we want to know your figure. Actually, yeah, that's why we are very carefully watching the markets, but as I said, you know, there are many challenges in this macro-economic environment so we try to do our best to keep the current situation and some forward wind is coming to us. There are potential positives there like salary hike or government employees and deduction in income tax and a stronger

rural demand and so you know, we try to do our best to communicate those positive factors.

Mr. Jamshed: Sir, the top 10 cities would account for what proportion of your sales?

Mr. Mayank Pareek: Top 10 cities account for around 40% to 45% of our sales.

Mr. Jamshed: Okay, fair enough, so my point is that to drive growth, you will have to aggressively move into tier 2 and tier 3 cities, not just Maruti but the industry as a whole. How do you do this in a situation where dealer margins on vehicles are becoming increasingly thin and their working capital costs are also going up, that's my basic question because are you envisaging a situation where growth for the passenger car industry for the next 1-2 years stays in the about 9%-10% range or does that also appear optimistic?

Mr. Mayank Pareek: Okay, I will take your first question first regarding dealer-network expansions.

Mr. Jamshed: Right.

Mr. Mayank Pareek: We work on a very strong dealer profitability model which assures a fair return on their investment over a long term period. And so far we have not envisaged any difficulty in appointing dealers. As Mr. Nakanishi also mentioned in his opening remarks, we are continuously expanding on network and despite so called challenges in the market, our expansion program is on course. And we take care of dealers in terms of volume growth which comes plus margins we keep adjusting, and so our dealer network is quite profitable network. As far as future numbers, then I will stick with what our MD said that we wish we knew the number. There are challenges and there are opportunities. While macro things, we cannot do anything but our endeavor is to maintain our insight well and do whatever we can manage to ensure that there is a substantial or reasonable growth in market.

Mr. Jamshed: Alright. Thank you.

Kanwaldeep Singh: Can we have the last question now?

Moderator: Sure, sir. Last question comes from Ms. Sonal Kohli of Aim Capital, over to you ma'am.

Mr. Sonal Kohli: Hi, this is Sonal Kohli, a couple of questions. Firstly, you mentioned about 200,000 export target, is this for the calendar 2010 or this is for the financial year 2010?

Mr. Shinzo Nakanishi: Oh yeah, 2010-2011.

Mr. Sonal Kohli: Secondly, you mentioned about likely increase in, you know, tyre prices, what kind of, you know, quantum to expect and secondly what would be the tyres as a percentage of your net sales?

Mr. S Maitra: See, we are still negotiating so therefore, you know, right now it will be difficult to really tell, you know, what the final numbers would be.

Mr. Sonal Kohli: And what would it be as a percentage of your net sales, you know, typically a tyre cost?

Mr. S Maitra: See we never go with the percentage of net sales, we go with the percentage of that component price, I mean, it could be anywhere between say, 10%-15%. I am talking about component price, you know, because we never go with the net sales.

Mr. Ajay Seth: I don't think that's really relevant because see the way to look at it is what will it impact in terms of increase or something that we can understand but it is a very insignificant number if you relate it with the net sales value. We don't have those numbers at this point in time with us but it will be a very insignificant number.

Mr. Sonal Kohli: And what would be Suzuki's share in Europe as of now? Still small, but depend on the country, I think in total Europe, they are more or less 3%.

Mr. Sonal Kohli: What would it be in terms of volumes?

Mr. Shinzo Nakanishi: Volumes, that in Europe, could I tell you Europe, that is over 10 million I believe.

Mr. Sonal Kohli: And you mentioned the A-Star would be launched in, you know, the last quarter of the year, again are you referring to the financial or the calendar year?

Mr. Shinzo Nakanishi: Financial year.

Mr. Sonal Kohli: Okay, okay, thank you.

Moderator: Thank you very much sir. At this moment, I would like to hand over the floor back to Ms. Shilpa Gupta for final remarks.

Ms. Shilpa Gupta: Thank you Sandhya. I would like to thank all of you for joining us in the call. I would especially like to thank Maruti Suzuki's top management for sharing invaluable insight

into the company as well as the industry. Thanks everybody.

Mr. Shinzo Nakanishi: Okay, thank you.

Moderator: Thank you very much, ma'am. Ladies and gentleman, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
