



# “Maruti Suzuki Q4-FY10 Results Limited Conference Call”

**April 26, 2010**



- MODERATORS:**
- MR. SHINZO NAKANISHI – MANAGING DIRECTOR AND CEO, MARUTI SUZUKI**
  - MR. MAYANK PAREEK – MANAGING EXECUTIVE OFFICER, MARKETING AND SALES, MARUTI SUZUKI**
  - MR. S. MAITRA – MANAGING EXECUTIVE OFFICER, SUPPLY CHAIN, MARUTI SUZUKI**
  - MR. AJAY SETH – CHIEF FINANCIAL OFFICER, MARUTI SUZUKI**
  - MR. KD SINGH – GM, CORPORATE**
  - MR. RAHUL BHARTI – HEAD, CORPORATE PLANNING, MARUTI SUZUKI**
  - MR. ADITYA RATTAN, PRESIDENT, DAIWA CAPITAL MARKET INDIA PVT. LTD.**

- Moderator** Ladies and gentlemen; thank you for standing by and welcome to the Q4 FY10 Results Conference Call presented by the top management team of Maruti Suzuki. At this time, all participants are in a listen-only mode. The call will commence with a brief from senior management of Maruti on the company's performance in FY10 followed by a Q&A. At which time, if you wish to ask a question, please press '\*' and then '1' on your telephone keypad and wait for your name to be announced. I would request participants to restrict themselves to one question during the initial round of Q&A.
- I would now like to hand the conference over to Mr. Aditya Rattan, President, Daiwa Capital Markets India Pvt. Ltd. Thank you and over to Mr. Rattan.
- Aditya Rattan** Thank you very much. Good afternoon to all of you. On behalf of Daiwa Capital Markets, I welcome you all to the Q4FY10 post-results conference call of Maruti Suzuki India Ltd.
- I also take this opportunity to welcome Mr. Shinzo Nakanishi, MD, CEO of Maruti along with the senior management. I would now like to hand over the call to Mr. Rahul Bharti, who will take it from here. Over to you sir, thank you.
- Rahul Bharti** Thanks, Aditya. Ladies and gentlemen; good afternoon and welcome to the fourth quarter and annual results conference call of Maruti Suzuki. May I introduce you to the management team from Maruti Suzuki today? We have our Managing Director, Mr. S. Nakanishi.
- Shinzo Nakanishi** Good afternoon.
- Rahul Bharti** Our managing executive officers of Supply Chain, Mr. S. Maitra;
- S. Maitra** Good afternoon.
- Rahul Bharti** Of Marketing and Sales, Mr. Mayank Pareek.
- Mayank Pareek** Good afternoon.
- Rahul Bharti** From Finance we have our CFO, Mr. Ajay Seth.
- Ajay Seth** Good afternoon.
- Rahul Bharti** And our Executive Officer, Mr. H. Sakamoto and General Manager, Mr. Pradeep Garg and all team members from Finance.
- We have from Corporate, our general manager, Mr. K. D. Singh.
- KD Singh** Good afternoon.

The con call will begin with a brief statement on the performance and outlook of our business by our Managing Director, after which, we will be happy to receive your questions.

May I remind you of the Safe Harbor. We may be making some forward looking statements. They have to be understood in conjunction with the uncertainty and the risks that the company faces. And I may also like to inform you that the call is being recorded and the transcript will be available at our web site.

I would now like to invite our, MD, Mr. Nakanishi. Over to you sir.

**Shinzo Nakanishi**

Thank you Rahul. Good afternoon, Ladies and Gentlemen, I would like to briefly take you through our business and financial performance in the year and fourth quarter and our thoughts for the future. At the beginning of the year, we knew this year would be one of volatility, so we adopted the mantra of flexibility & agility. A market sensitive approach, strong inventory control and shorter lead times helped us achieve good growth. We sold a total of 10,18,365 million vehicles in this year. This includes 8,70,790 units in the domestic market and export sales of 147,575 units. This is the highest ever domestic and export number by the company and translates to a growth of 28.5% over the last financial year. It was a landmark year for Maruti Suzuki as we crossed the 1 million production and sales per year milestone. We thank the policy makers in the government who have supported the industry with a very intelligent balance between growth and inflation while giving more money in the hands of the consumer.

While our market share in the compact A2 segment marginally declined from 57.9% to 56.1%, we strengthened our leadership further in the big cars or A3 segment by expanding our market share from 31.4% to 36.0%. We grew by 111% in export sales mainly to Western Europe, thanks to our fuel efficient compact car A Star. Success in these technologically advanced markets gives us confidence on our cars against global competition in India also. The sales from our pre-owned car business called True Value grew by 33% to 163,241 units.

Our customers rated us the best in India in both sales satisfaction and service satisfaction in the survey held by JD Power. Maruti Suzuki has now the leadership in customer satisfaction for the past ten consecutive years. We strengthened our product portfolio in the domestic market by launching Ritz and Eeco, apart from bringing in new refreshments and engines in the SX4 and Estilo. They all have done well in the market and received a good response.

The Eeco seems to have understood its customer well and there is a good demand for that model. Our next generation technology of light weight, low-friction, and K-series petrol engines are now available in Estilo, Ritz, Swift Dzire and now WagonR. We think fuel efficiency will continue to be a major consideration in the car purchase decision. We have upgraded all the relevant models production to Bharat 4 emission standards well before the government date. We are on course to develop our R&D capability with our strength of engineers reaching 1000. Our designers showcased the concept car, the R3 in the Auto Expo this year. We have procured 700 acres land in Rohtak and are now setting up a modern R & D Centre. We have laid the foundation stone for capacity increase in Manesar by 250,000 units

per year. In the field, we expanded our network drastically to cover 555 cities through 802 sales outlets and 1335 cities with 2740 Service outlets.

With this network penetration, we could grow our rural sales by more than 100% this year. I would now discuss our financials for Quarter 4 and the financial year 2009-10. In the fourth quarter, the Company registered net sales of Rs 82.35 billion a growth of 30.5% over the same period, last year. Our Net Profit after tax stood at Rs 6.56 billion, a growth of 170% over the same period, the previous year. With this, we closed our financial year with Net sales of Rs 289.5 billion, a growth of 42.2% over the previous year. The Net Profit after tax for the year stood at Rs 24.97 billion, a growth of 105%. We think, to even out the effect of individual quarters, the results can be best seen for the full financial year as a whole. Though our net sales increased, our profit was impacted to some extent by increase in raw material cost, cost of new model launches, cost of upgradation to Bharat Stage 4 emission norms and a decline in Euro.

I would now come to our outlook for the financial year 2010-11. Recently, we have seen fuel prices going up and there are discussions on interest rate increases. The market still continues to look good and we are positive. Last year, middle to lower cities, rural segment and government employee segments helped our sales. This year, we think the top cities will respond well. We have seen some new model launches by competition in the A2 and upper A2 segments. Some of them have also tried to be aggressive on price. As a Company, we had been preparing for this for the last few years and we are firmly positioned to keep our advantage intact. Indian customers always look at the total cost of ownership, and not just the initial price. We hope to give to the customer better products with higher fuel efficiency, lower cost of spare parts and service and higher residual value. Export sales will be a challenge this year post scrappage incentive schemes in Europe and we would have to work hard even to achieve last year numbers.

On margins, increased economies of scale without much fixed cost investment and higher inner part localization should give us some benefit. At the same time, we should be conscious of the fact that we are increasing a lot of technology elements in our products to our customers at almost the same price. This technology brings new platforms with rich styling, high fuel efficiency, high engine performance and safety and features that enhance driving comfort. All these have an impact on the cost of our products. In economic parameters, there are concerns on Euro depreciation, on steel, aluminum, copper and rubber price increases and there are some talks of the Yen softening.

Ladies and Gentlemen, in this new phase of competition, we may see some fluctuations in the short term but our team is firmly in charge and we will keep giving our customers compelling reasons to buy our cars and in turn reward us with profits. I would now like to invite any questions or suggestions, you may have. Thank You.

**Moderator**

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Kapil Singh of Nomura Securities. Please go ahead.

**Kapil Singh** My first question is on raw material costs. We have seen a sharp increase in material cost quarter-on-quarter. Are there any one-time cost items here or is this ongoing costs? And secondly, I just also wanted to understand the R&D expensing policy that we are following over how many years, are we expensing the R&D expenses for example, the costs that we incur for new products, if you could just answer these two first and then I have one more question.

**A.Seth** To answer your first question on the material costs, yes there has been an increase of 170 bps Q-on-Q. There are no one-time items. It's a combination of factors. Of course as you rightly pointed out the material costs in this quarter has gone up. Besides that there are factors like the exchange rate, as it was also mentioned by our M.D. in the opening speech that Euro has depreciated considerably. It is also the impact of the model mix because it will keep changing at a given point in time, you will have to consider the impact as well. So it is a combination of all these factors which has led to this reduction in margins of 1.7% as you see. So that is the answer to your first question. On the second question that you asked on R&D, all expenses which are of revenue nature are being charged off in the beginning. So everything is expensed off in the beginning. Anything which is capital in nature is charged off as per the depreciation policy that the company adopts. The tooling that we incur which is on new models, according to the tooling policy is charged off in four years.,

**Kapil Singh** For example, for the 290 Crores that we read about in the news for the new WagonR what will be the expensing that you would have done if at all in the quarter reported?

**A.Seth** Tooling as I said is charged off in four years. So it will be for the respective period. So if it is used for three months, there will be a three month charge now and then correspondingly next year will be full year and so on.

**Kapil Singh** Okay. And can you also tell us how are you placed on foreign currency as of today, given the Yen and Euro movement, can we expect further gains or losses in the coming quarters?

**A.Seth** On foreign exchange we have a hedging policy in place. We are also guided by the board. So we have got first six months exposure hedged both in the Euro side as well as in the yen side. Rupee being a natural hedge, we keep it open, except for the excess which we have hedged. So we hedge for the first six months and we are taking calls on next six months based on how the currency is moving now.

**Kapil Singh** And during the quarter did you give any hike on material costs on steel, etc., also or that will come through in the June ending quarter?

**A.Seth** There has been an increase on all commodities including steel as well as aluminum, copper; there have been increase all across on all commodities.

**Kapil Singh** My last question is on Capex. If you can tell us, what will be the CapEx in FY11 and 12 and what will be the addition to gross block in the same year?

- A.Seth** Our Capex next year will be about 2800 Crores. And that would be the addition to a gross block.
- Kapil Singh** Okay. So something will go into capital work in progress or everything --?
- A.Seth** This is what we assume would be capitalized.
- Kapil Singh** So the reason I asked is that how will it reflect in depreciation, will we see this in FY11 or in FY12?
- A.Seth** Okay. If we capitalize it obviously the depreciation will come in next year, but it depends on the timing of capitalization. So some of it may get capitalized towards the end of the next year. So you may not see significant amount of depreciation because most of the projects are headed either towards end of next year or thereafter.
- Kapil Singh** Okay. And in FY12, what is the CapEx guidance if at all?
- A.Seth** We will be about 3,000 Crores.
- Kapil Singh** Okay. Thank you, sir.
- Moderator** Thank you, Mr. Singh. Our next question is from the line of Saurabh Das from Sundaram BNP. Please go ahead.
- Saurabh Das** Good afternoon, everybody. Thanks for the opportunity. Sir, this is regarding our capacity and we continuously hear that capacity is a major issue which we will have to be grapple with for FY11 till the capacity at Manesar comes in FY12. If you broadly give us a sense of what is the likely capacity at Gurgaon and Manesar A) and second, on the engine side, what is the K-series and diesel engine capacity?
- M. Pareek** I will answer the first part first. You said capacity constraints. If you see last five years, Indian car industry has grown at a rate of around 13.5% CAGR. Even in the last year if you see the growth, it looks very high, 22-odd percent. This is coming on a year which was a flat year. That is fiscal 09 with zero growth. So if you average it out the growth will be around 11%-12%. So we have enough capacity to be in line with this type of growth. However, what we are taking is multiple actions. As we have announced earlier we are rationalizing, upgrading and debottlenecking our existing plants so that will release some extra capacity. Also we are investing around Rs. 1700 Crores to set up a new plant at Manesar. That will give us additional capacity of 250,000 acres annually. And we have announced that this will come in 2012, but we are trying to prepone it. These are multiple actions we have taken so that we do not miss out on the opportunities which Indian market offers.
- Saurabh Das** Sure. Thanks Mayank for that answer. Actually if I broadly look at the industry level utilizations that would be hovering at around 70%. But then certain players like us and Hyundai would be operating at close to 100. Some of our model in spite of the debottlenecking

are still running on waiting period. But our concern primarily lies in with urban consumers especially is bombarded with so many wonderful choices from competition. Then even though a customer is looking at a Maruti product may ultimately not look at it or may opt for an alternative if it is not available off the shelf. So if you can just give us a sense of what would be an actual numbers at Manesar and Gurgaon capacity for 11 that would be helpful?

**M. Pareek**

As of now the capacity is of 700,000 in Gurgaon and 300,000 at Manesar. That makes it a million. You raised the issue of waiting period. And actually that is a running concern with us too; I think waiting period is a function of two things. One is the demand and second is a supply position. In fact, there are three models which are on waiting today. Swift, Dzire and Eco. Now let us take Swift, we were making around 5,000 vehicles per month. Now we are making more than 12,000 per month. And the waiting period which had gone to as high as 7 to 8 months has now started dropping to three months. And our manufacturing people are continuously making efforts to increase productivity & capacity. The same thing happened in Eco which was launched just 3-4 months back. We are almost doubling the capacity there. So our attempts are to make sure that the opportunity which lies there should not be lost.

**Saurabh Das**

Thanks. Just one final question. Are we looking at a third shift at Manesar and are we opposed to a third shift as a philosophy per se or are we looking at that kind of an option?

**R.Bharti**

As Mr. Mayank just said we have a capacity of 1 million and by the way of debottlenecking and productivity stretch we are able to generate 1.2 million as of now. The option of third shift still exists. But we will be cautious when we go towards it because we would like to view all considerations like quality, etc.. We are not sure whether we would need a third shift too soon.

**Saurabh Das**

Thanks

**Moderator**

Thank you Mr. Das. Our next question is from the line of Srinivas Rao of Deutsche Bank. Please go ahead.

**Srinivas Rao**

Thank you very much sir. Just a couple of questions I wanted to ask you. First is sir, again, going back to the capacity, at least as we understand right now it is coming at the end of fiscal '12 with a new line, is that right, can we assume that it is a right time line for the capacity coming in?

**Shinzo Nakanishi**

I think you are talking about our expansion for the Manesar plant.

**Srinivas Rao**

That is right.

**Shinzo Nakanishi**

That will come in the beginning of the year 2012. That means fiscal year, year 2011-12.

**Srinivas Rao**

Okay. So will it come at beginning of fiscal year 2012?

**A.Seth**

End of 11-12.

- Shinzo Nakanishi** Beginning of the calendar year 2012.
- Srinivas Rao** Okay. Understood sir, thank you very much. Sir, just want to dig in specifically on the results this quarter. We see a part of the fall in margins actually seems to be on account of higher sales expenditure, which is probably linked to your auto expo. And hence not the right level to look at. So can we actually assume that in the medium term at least over the next say two, three quarters this margin which we are seeing for fourth quarter is not representative, in the sense actually an improvement in margin from these levels?
- A.Seth** As I mentioned, the margins, you have to see every quarter depending on various factors. And some of the factors have been adverse, like the exchange rate, how is that moving, the commodity prices have been hardening so we will have to take that into account, the ability to pass on price increase is limited. On top of it, I think there will be some one time expenses like you mentioned about auto expo, but these expenses will also get repeated next year, if not auto expo, there could be some other expense that we will have, the Commonwealth Games this year and there could be an IPL related expenses and so on. So I guess the margin should be looked at in every quarter in isolation and while our endeavor would be continuously to work towards cost reduction and productivity improvement as we have been doing in the past, but there are certain factors that you cannot control like the material costs and exchange rates. So we will have to read the two together.
- Srinivas Rao** Okay, sir, thank you very much sir.
- Moderator** Thank you, Mr. Rao. Our next question is from the line of Jay Ramanathan of Kotak. Please go ahead.
- Jairam Nathan** Hi, thanks for taking my question. Just on the commodity costs have you started negotiating with the steel suppliers for April and can you give us an idea on how it is going.
- S. Maitra** We have started negotiating with the steel suppliers and that negotiations are going on right now. They are expected to conclude somewhere by the end of May.
- Jairam Nathan** And what will be the length of the contracts.
- S. Maitra** This is going to be for six months.
- Jairam Nathan** And can you brief us on if there are any other auto makers who have signed contracts and at what rate?
- S. Maitra** I think all of them are in the process of negotiating only.
- Jairam Nathan** Okay. And my other question is with regard to realization, as you mentioned we saw a 10% increase in realization in fiscal 10. How should we think about this for the next year given a mix and possibility of price increases?

- A. Seth** I think the realizations now have stabilized. So you would not see any significant change in realization. Because now we have reached a particular level of mix and realizations, they would be pretty much in line with the volume growth hereafter.
- Jairam Nathan** Okay. Thank you.
- Moderator** Thank you. Our next question is from the line of Abhijeet Dey of Kotak Mutual Fund. Please go ahead.
- Abhijeet Dey** Just one question. Can you give me the export revenues for the Q4 and for the entire year, FY10?
- A. Seth** Our export revenues for the entire year are 4,862 Crores. Does that answer your question?
- Abhijeet Dey** Yeah, if possible for the fourth quarter also?
- A. Seth** The last quarter exports were 1,283 Crores.
- Abhijeet Dey** Okay, sir, thank you and all the best.
- Moderator** Thank you, Mr. Dey. Our next question is from the line of Jinesh Gandhi of Motilal Oswal Securities Limited. Please go ahead.
- Jinesh Gandhi** Hi, my question is on I believe board was considering increase in FII limit so any update on that?
- A. Seth** I think on FII limits, we mentioned that the proposal is being given to the board and the appropriate call will be taken by them and then we will be informing if there is any change.
- Jinesh Gandhi** Okay. And secondly, this translational gain, Forex gain which you have reported of about 70 bps. Is it pertaining to our euro contract or something else?
- A. Seth** Yeah, these are pertaining to Euro contracts. That is right.
- Jinesh Gandhi** Effectively, our revenue line has got impacted because of Euro depreciation which was made up in the translational gains.
- A. Seth** That is right.
- Jinesh Gandhi** Okay. And lastly our depreciation and interest cost has gone up substantially on a sequential basis. Any particular reason for that to happen or is it the year end impact?
- A. Seth** Depreciation has gone up because of the tooling, etc., that we have amortized now. The fact because tooling gets amortized over four years so the impact is large. That is one. And second question that you asked was on interest, it is because on the export side we have taken some

export loans which are at reasonable rate of interest. So because of that we are finding interest cost rising this quarter.

**Jinesh Gandhi** Okay. And the 70 basis point increase in selling and advertisement expenditure is entirely pertaining to Auto expo or how would it be?

**A. Seth** Large portion of it is the advertisement cost as we mentioned. The auto expo and other advertisement cost that we had budgeted for the last quarter. So therefore you see that increase.

**Jinesh Gandhi** Okay. Thanks.

**Moderator** Thank you, Mr. Gandhi. Our next question is from the line of Govind Chellappa of Credit Suisse. Please go ahead.

**Govind Chellappa** Hi. I just want some more clarification on the raw material cost for the fourth quarter. In your presentation, you have mentioned that there is a cost of BS4 upgradation as well as initial cost of new models. Could you help us A) if you could quantify the three factors that you have mentioned and the impact of forex as well. And second, when you talk about cost of BS-4 upgradation are you talking about one time model change kind of expense or are you talking about recurring raw material costs kind of expense. And if it is raw material what is that we are talking about, is it because of change to K-series engine?

**A. Seth** It is difficult to get into nitty-gritties of it. But what we can say is the material cost in this quarter has gone up by 170 basis points. There is a model change impact and the exchange rate impact which has partially been offset with the price increase that we announced in January.

**Govind Chellappa** Okay. I was most interested is in the costs of BS-4 upgradation. What is it that we are talking about?

**A. Seth** The BS-4 will comprise various factors. There will be a transmission costs impact, there will be an engine change impact and there will be an impact on any body change, etc., that happened. All that is getting reflected in the higher material cost,

**Govind Chellappa** And are these recurring expenses that is what I want to clarify.

**A. Seth** These are all recurring expenses.

**Govind Chellappa** Okay. And finally on the excise duty we had shifted over to the 1.2 liter engine on the Petrol Swift. Has the entire benefit flown through in the current quarter?

**A. Seth** Yes, it has flown through because we also had aligned the price accordingly and you see the favorable price variance that is about in the presentation of 0.5% reflects the same thing.

**Govind Chellappa** Okay, fine, thank you, sir.

- Moderator** Thank you Mr. Chellappa. Our next question is from the line of Amit Kasat of AnandRathi Financial Services. Please go ahead.
- Amit Kasat** Sir, you discussed about the raw material contracts which are getting renegotiated by the end of May. I just wanted to know any negotiation that has happened on the tires? And if that has happened how much is the increase which you have given to the tire manufacturer in the last six months?
- S. Maitra** Are you talking of the tire negotiation now for this half or are you talking of the previous half?
- Amit Kasat** Previous half also, and negotiations which may come up in future as well.
- S. Maitra** In the previous we had given an increase of about 7% on the tires. And this half we are negotiating right now.
- Amit Kasat** And sir, just one more question. On the cost related to Bharat 4, I think you have taken the whole of those costs into consideration for the fourth quarter, has this been fairly distributed between the last four quarters?
- A. Seth** To the extent the models have been launched in this quarter the costs would have come in. This quarter the model which have been launched in this year it will come in next year. So it will be divided in the proportion of the model launch.
- Amit Kasat** Okay. Thank you, sir.
- Moderator** Thank you, Mr. Kasat. Our next question is from the line of Pramod Amte of RBS. Please go ahead.
- Pramod Amte** Hi, this is more on the broader thought process. In terms of the whenever emission norm changes happen you are one of those companies who take the entire product portfolio to a new emission norm and do not continue the older emission norm product. What is the thought process; would it be a disadvantage to you as compared to other peers in the short-term?
- Mayank Pareek** I do not think so. Actually in the long-term it is always better to provide the customers cutting edge technology. It is not enough to take a short-term view on that. So our view is always to be ahead of the curve and provide customers every where the latest technology available. And in the long term I think this is a winning strategy.
- Pramod Amte** And specific to Swift, there are a lot of speculations when you priced with a lower engine capacity that you will be passing on the excise duty thing. And that could have been a revival for the Swift petrol. Is that a way to look at it? You did not pass it on? Is it more of a power scenario or what is the thought process there?
- Mayank Pareek** First, you said revival of Swift. I think that is not the case. Swift is the largest selling car in A2 plus segment and extremely popular.

- Pramod Amte** Swift petrol?
- Mayank Pareek** Even Swift petrol. Swift petrol is almost 40% plus of our total Swift sales. Now, pricing strategy is not product to product. There are a lot of strategic pricing done, there is a whole ladder, we have 13 products to look after and all have to fit in a particular bracket. So price is not only cost, it is also what market can absorb, whatever strategic intent is in each segment.
- Pramod Amte** Sure. And where do you stand in terms of diesel capacity ramp up and the actual capacity moving up?
- Rahul Bharti** Diesel capacity is about 200,000 and last year we could use only 163,000. And we have the option of a third shift available which would take it up to 300,000 this year.
- Pramod Amte** Sure, thanks.
- Moderator** Thank you, Mr. Amte. Our next question is from the line of Pramod Kumar of B&K Securities. Please go ahead.
- Pramod Kumar** Yeah, good afternoon. My question pertains to the redesigning of WagonR. Just wanted to know whether because of this redesign, will WagonR still continue to attract the higher royalty charges or it was actually earlier due to be out of the royalty net by December 2010. So what happens to the royalty treatment on the new WagonR?
- A Seth** No, first of all I do not think WagonR was out of the royalty net in 2010 because royalty is a renewable agreement. We have been paying royalty on older models as well. The new WagonR has been on a new platform and a new design altogether. But there will be a new license agreement that will come in place for the new WagonR. And accordingly, the terms and conditions for the new agreement would be applicable.
- Pramod Kumar** So is it right to assume that the new WagonR will attract royalties which will be similar to what has been the case with other new launches, like say, A Star or the other new launches?
- A Seth** Absolutely.
- Pramod Kumar** And on the cost of debottlenecking, if you can just throw some more light, you talked about 90,000 incremental capacity coming up by June. What would be the cost of such kind of a debottlenecking and will it be entirely in Manesar or will be split between Gurgaon and Manesar?
- A. Seth** In Manesar we are talking about expanding capacity by a new plant. But in Gurgaon we have talked about debottlenecking and the last time we even mentioned that we will invest about 140 Crores, which will give us incremental volumes of about 90,000 units every year. That is with an investment of 140 Crores.

- Pramod Kumar** Okay. And hedging side, you said that you have done hedging for the next six months. And as a policy if I am not wrong you had only 50% of the net exposure. Does it hold good even for the next six months?
- A. Seth** That is right. We hedged for the next six months and all of the policy allows us to go up to one year, but as a matter of the precaution and since exchange has been very volatile, we normally take a stand for our position for about six months.
- Pramod Kumar** So out of the six months only 50% of the net exposure has been hedged or 100% of the net exposure has been hedged?
- Mayank Pareek** No, the first six months is fully hedged.
- Pramod Kumar** And thanks a lot, sir. Best of luck for the future.
- Moderator** Thank you Mr. Kumar. Our next question is from the line of Sahil Kedia of Enam Securities. Please go ahead.
- Sahil Kedia** Firstly, can you let us know if Alto has been moved to BS-4?
- Mayank Pareek** Yes, Alto has been moved to BS-4.
- Sahil Kedia** And additionally, what is the total price increase that we have taken on a blended basis till date? The reason I stated this is because on a sequential basis our costs seem to have gone up significantly in terms of RMC, whereas our increase in realization is just about a percent. So are we planning to increase prices in the coming months, what is our thought process there, sir?
- A. Seth** We have taken some price increase and we would be closely looking at how the material costs goes moving forward. The first objective always is to make sure that through cost reduction productivity programs we try to contain all the costs increases, so we will continue to work on that but we will have to take a call at an appropriate time, if we think that the increases are much more than the possible reductions and productivity improvement gains that we can achieve. So this call will be taken at an appropriate time but again, reemphasizing that our first endeavor would be to ensure that we are able to contain all the increases through our own cost reduction programs.
- Sahil Kedia** All right, thank you.
- Moderator** Thank you, Mr. Kedia. Our next question is from the line of Mahantesh Sabarad of Fortune Equity Broker. Please go ahead
- Mahantesh Sabarad** Good afternoon, sir. I had a question on your other income. In the December quarter you had an other income of 91 Crores fallen down to something at 79 Crores. What is the reason linked to that?

- A. Seth** The yields in the markets have been falling continuously and therefore you find that getting reflected on an annual basis you see last year our yields were about 12%, this year they have fallen to about 7.7% and infact even if you look at quarter-on-quarter last quarter was the worst in terms of yields so that is getting reflected in the reduction in the other income and also we had a proportion of fixed deposits which was giving us very high returns earlier, which we have obtained. All the fixed desposits have been repaid so to that extent, our income reflects that all..
- Mahantesh Sabarad** Another question linked to your employee cost. Now that your Rohtak facility will be up stream this year that's essentially going to add to your employee cost, when you take an overall picture so from year-to-year, FY10-FY11 what kind of employee cost should we be looking at budgeting in our models. It was about 545 Crores for the year ended March 2010.
- A. Seth** I think rather than looking at absolute amount what we look at is that our employee cost as a percentage of Net sales, should be in the vicinity of 2-2.3% so that is a kind of range that we work on.
- Mahantesh Sabarad** But that may not work next year giving that your turnover growth will not be proportionate to the growth in the employee cost given that it is an R&D setup.
- A. Seth** No we have structured all that in including the R&D growth that we have already got over 1000 people that we have talked about in R&D. So netting all the future employee goes into account we would be within this ratio.
- Mahantesh Sabarad** Of your total employees how many will be devoted to the R&D activity next year?
- A. Seth** We have about 1030 employees who are purely for the engineering activities under various activities that they would be performing.
- Mahantesh Sabarad** And that would grow to what kind of level in this year in FY11?
- M. Pareek** We have reached our target. The number actually has been recruited in anticipation of the Rohtak Facility coming up. It is not that after a facility comes we recruit people. You need to train them, they should join the system, understand the process. So they have been recruited. I think last three years we have increased from 264 to 1000 people now and they are working on various engineering product development, design on latest projects so what Rohtak offers is a state of the art facility. We did not mean additional incremental manpower directly.
- Mahantesh Sabarad** Fine sir and finally you have guided 2800 Crores as your total CapEx for the year. Will that include the R&D spend as well?
- A. Seth** Part of it will come in next year and some part will go in a year after that.
- Mahantesh Sabarad** So the R&D expenses are part of 2800 Crores and that would mean that you would gain better going forward tax advantage on that.

- A. Seth** Yeah, tax advantage would actually start growing when the whole thing is set up and up running so next year you may not get an advantage on the thing unless it is all setup so that is what I think actually start accruing to us in 2012-2013 if we have the test tracks, etc., done and we start using it.
- R. Bharti** I would like to add to that we have to be conscious of the fact that land is a part of the CapEx which does not get depreciated for R&D depreciation benefit.
- Mahantesh Sabarad** As an automobile industry I was referring to this weighted average deduction that you have...
- A. Seth** We understand what you are saying so the benefit as I mentioned to you will start accruing to us once facility is ready and up and running.
- Mahantesh Sabarad** Thank you.
- Moderator** Thank you Mr. Sabarad. Our next question is from the line of Chirag Shah of Emkay Global. Please go ahead.
- Chirag Shah** Good afternoon everybody, one basic question on this capacity again, you indicated that you can reach a capacity of 1.2 million vehicles. If I have to ask you in the best get scenario where the optimal product mix that you would ideally wish for, what is the run rate that you can generate on a daily or a monthly basis. What I am trying to understand is what is the peak monthly number that you can hit in terms of production assuming you operate on two-shift basis.
- Mayank Pareek** Yeah we said 1.2 million and that means 1 lakh capacity per month.
- Chirag Shah** Okay but is it possible for you to produce more than that in a particular month if the demand for products are in optimal level as you would like to? Can you take it to 1.2-1.3 kind of capacities or are you stuck with these production lines that can produce only 1 lakh unit per month.
- Mayank Pareek** As of now it is 1.2 lakh. As I said a short while ago we are doing some work on rationalizing capacities and debottlenecking, etc., so that will give us some additional numbers.
- Chirag Shah** That is about 90,000 additional units.
- Mayank Pareek** That we will not commit. See it is not like setting up a plant. When we set up a plant we can say we are setting a plant for 250,000 vehicles. This way we are trying to expect out of existing thing that number should be clear when it happens.
- Chirag Shah** Okay so by what time can we expect this debottlenecking process to happen, can we expect that to happen in the next three to six months?

- Mayank Pareek**                      Actually it is ongoing process. It is not again like I will go to my favorite example of a new plant where we have a foundation laying ceremony and an inauguration ceremony. This is an ongoing process. Eventually we have been assured by manufacturing that supply will always be ahead of the demand.
- Chirag Shah**                        Okay, Second thing was in commodities if I can touch base you indicated that some cost hikes have happened on the metal side. Can you highlight what is the kind of cost increase that you have already given to the vendor?
- A. Seth**                                We said that the increase on commodities varies between 10-15%. That is the kind of average increase that has happened on commodities.
- Chirag Shah**                        That is in last quarter or are you talking about...
- A. Seth**                                I am talking of last quarter. There is still some increase which may come because we are negotiating that and steel has gone up from that level so we are negotiating that and we will get to know that in a months time as to where we end up.
- Chirag Shah**                        And this increase that has happened across the entire raw material portfolio or has it been given to only some vendors or have all the vendors been given this kind of hike?
- A. Seth**                                Yeah that is right. When increase happens it is uniform for all the vendors. There is no distinction.
- Chirag Shah**                        And so further incremental increase what would be the kind of range right now looking at the current metal scenario then I presume a large part of the increase has already been done by you.
- A. Seth**                                I think you have to look at raw material index quarter-on-quarter so you will get the answer. But it is very difficult to say what increase will happen to us when we negotiated. There is significant increase in all commodity prices especially steel because steel is half the commodity that we use in total buying so we will get to know this in a month's time when we close the contract.
- Chirag Shah**                        One final question. If I look at K series as a platform for engine and if I look at WagonR for example. Between the old engine and the new engine what is the kind of weight reduction you may have achieved, if you can just help us understand that.
- R. Bharti**                              Broadly the old engine used a cast iron engine and the new one is an aluminum alloy engine and apart from weight reduction there are low friction benefits also so it is a totally different design technology where the benefit in fuel efficiency comes from weight reduction and also the different designs and combustion characteristics.
- Chirag Shah**                        But is it also that their cost of this engine vis-à-vis earlier engine is also lower, despite the upgradation?

- R. Bharti** No. The K engine is next generation technology it uses many such technologies for fuel efficiency increase and it comes at a cost.
- Chirag Shah** Okay. Thanks a lot.
- Moderator** Thank your Mr. Shah. Our next question is from the line of Supriya Madye of ICICI. Please go ahead.
- Supriya Madye** I just wanted to understand you just said that you have upgraded all our models over Bharat 4 norms, what would have been the cost?
- A. Seth** We talked about what is the total material cost increase that has happened in this quarter over last quarter because most of the models were introduced in the last quarter and some of them are being introduced now so the increase in material cost which is a combination of BS-4 as well as the commodity price increase is about 170 basis points compared to the last quarter so that could give you some indication on what is the cost on account of BS-4. So this increase is a combination of the two factors which is commodity and the emission norm change.
- Supriya Madye** Is it not possible to quantify like how....
- A. Seth** We do not give separate breakup for this.
- Supriya Madye** What would have been our percentage out of the total sales to the government, under rural segment for the whole year?
- R. Bharti** Yeah rural around 18% and government around 13%.
- Supriya Madye** Can you please repeat on your sales retail network expansion?
- R. Bharti** We have 802 outlets today.
- Supriya Madye** And you are going to expand it to 1000.
- M. Pareek** Spread over 555 cities, we have 802 sales outlets and we have 2740 service workshops in 1335 cities.
- Supriya Madye** Thanks a lot sir
- Moderator** Thank you. Our next question is from the line of Kaushal Maroo of Religare Capital Market. Please go ahead.
- Kaushal Maroo** Thanks for taking the call. Most of my questions have been answered. Just one general question. Would it be safe to assume that the EBITDA margin on the higher priced product is higher than a lower priced one?

- A. Seth** Not necessarily because EBITDA margins are again dependable on the market, how the competitive prices are and they could be different for different products. We as a matter of policy look at a blended margin rather than looking at margin for individual products so it is not necessarily true that our production will have higher EBITDA margins.
- Moderator** Thank you. Our next question is a follow-up from the line of Kapil Singh of Nomura securities. Please go ahead.
- Kapil Singh** What would be the CapEx in FY10 that you have done?
- A. Seth** 1300 Crores.
- Moderator** Thank you Mr. Singh. Our next question is from the line of Mitul Shah of First Global. Please go ahead.
- Mitul Shah** Very good afternoon, I want to know that out of total volumes, what percentage of vehicles are royalty oriented in FY10 vis-à-vis FY09.
- A. Seth** We will be paying royalty on 86% of our vehicles.
- Mitul Shah** And what was that percentage last year?
- R. Bharti** We will just give you the figure, 81% last year.
- Mitul Shah** I want to just understand what is the treatment based means it is based on per vehicle or in absolute terms or what is exactly this or as a percentage of revenue we have to give?
- A. Seth** Royalty is calculated based on the RBI formula which says that you can pay royalty on domestic vehicles up to 5% is calculated based on net sales and from there you have to reduce import content and standard bought out.
- Mitul Shah** As and when we increase the vehicle prices similarly in absolute terms royalty also increases?
- A. Seth** That is right.
- Mitul Shah** Thanks sir. Thank you for my question.
- Moderator** Thank you Mr. Shah. Our next question is from the line of Ambrish Mishra of MF Global. Please go ahead.
- Ambrish Mishra** Thanks for taking the question. In the past we have seen that given the race for competition Maruti has been able to sustain the market share or grow at the same rate at the industry by differentiating itself in different product segments or creating a segment like Swift couple of years back so with competition now once again more aggressive and into the segment where Maruti has been carrying things forward. How do we try to differentiate ourselves in say

coming couple of years and once again see to that the customers come back to Maruti once again not only for price but also for the differentiating factors that it offers to its customers.

**Mayank Pareek**

Actually our strategy going forward is the same as what it has been so far. Which is to be very customer focused organization. What it means is to understand what a customer needs then create products and services around that. I am very happy you gave example of Swift. Ahead of time we saw that segment and created the segment in which everybody is coming now. For the last one and half year we launched three completely new models. We launched A Star which has become darling of the masses India and abroad, Ritz which is already among the top 10 selling cars and we very recently surprised the market by launching a car called Eeco. So our idea is, first, to sustain our leadership in existing segments and also to look for new opportunities by creating new segments. That is the way to sustain leadership which we have been doing and we intend to continue this.

**Amrish Mishra**

In that case what is our strategy say going into FY11 and FY12 and how do we see Maruti growing vis-à-vis the industry growth?

**Mayank Pareek**

Ha Ha Ha...First part of the strategy is not to tell the strategy. The moment you tell the strategy then the game is off. The strategy is same we have announced that we must launch at least one new model every year, we will continue to do that, that gives us incremental volume of the new segment also to keep on increasing new technologies. We introduced all new K-Series engine which has become extremely popular, the best engine in its class in India. Our experience of providing customers with 360 degree solution that is not only to sell the car but providing great service, reasonably priced spare parts, customization options, providing options to trade in the old car. To give you a piece of statistics, 58% customers change their car in five year or less in the absence of an organized way to retail their old car, we came out with this Maruti True Value concept a few years back and this has become extremely positive and potent force in our selling strategy so we attack the market from multiple angles to sustain the leadership and we intend to continue.

**Amrish Mishra**

Thank you.

**Moderator**

Ladies and Gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Jaideep Goswami, Head of equity at Daiwa Capital Market for closing comment.

**Jaideep Goswami**

Good evening on behalf of Daiwa Capital Market I would like to thank Maruti's senior management for their time and addressing queries of investors. I would now request operator to end the call. Thank you.

**Moderator**

Thank you Mr. Goswami, thank you members of the Daiwa team, and gentlemen of the senior management at Maruti Suzuki. Ladies and gentlemen thank you for choosing the chorus call conferencing service. That concludes this conference call. Thank you for your participation and you may now disconnect your lines. Thank you.