Q3 FY21 – Investor Conference Call

January 28, 2021

Moderator: Ladies and gentlemen, good day. And welcome to the Q3 FY 2021 Earnings Conference Call of Maruti Suzuki India Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Pranav Ambaprasad: Thank you, Margaret. Ladies and gentlemen, good afternoon once again. May I introduce you to the management team from Maruti Suzuki. Today we have with us our CFO – Mr. Ajay Seth. From marketing and sales, we have Member Executive Board – Mr. R.S. Kalsi; Executive Director (Marketing and Sales) – Mr. Shashank Srivastava. From corporate, Executive Vice President Corporate and Government Affairs – Mr. Rahul Bharti. General Manager (Corporate Strategy and Investor Relations) – Mr. Nikhil Vyas. From finance, we have Executive Director – Mr. DD Goyal; Executive Vice President – Mr. Pradeep Garg and Mr. Sanjay Mathur.

The con-call will begin with a brief statement on the performance and outlook of our business by Mr. Seth. After which we will be happy to receive your question.

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

I would now like to invite our CFO, Mr. Seth. Over to you, sir.

Ajay Seth: Thanks, Pranav. Good afternoon, ladies and gentlemen. May I start with some highlights of our product offerings and our company initiatives.

India's favorite car, Swift, became the best-selling car in calendar year 2020. Swift sold over 160,700 units in calendar year 2020, emerging as the top brands in the pecking order. Swift has been the best-selling premium hatchback in the country for the past 15 years, with sales over 2.3 million units.

Super Carry, which was launched in 2016, as first commercial vehicle of the company, has created a niche for itself within a short span, and has become the second best-selling mini truck in the light commercial vehicle market. Sold across 235 cities through over 320 commercial outlets, Super Carrier recorded a market share of 15% in financial year 2019-2020 and nearly 20% in financial year 2020-2021.

Recently, the company commenced the export of Jimny three-door, four-wheel drive, all-terrain vehicles to Latin America, Middle East and African markets.

In a customer friendly initiative, to further digitize the car buying journey, and provide ease and flexibility to the customers, the company recently launched the Smart Finance service. With the launch of Smart Finance, Maruti Suzuki has become India's first OEM to offer an online end-to-end real-time car finance service facility.

The company has been making efforts towards proliferation of environment friendly vehicles, which are immediately scalable solution in Indian conditions. In the first nine months of the financial year, the sales of CNG vehicles for the company has grown by 18.9% over the same period last year, at a time when the overall industry sales declined by approximately 16%.

In an employee-friendly initiative, Maruti Suzuki completed a housing township of affordable, modern, eco-friendly houses for its employees in Dharuheda, and handed over the first batch of houses to its employees. This is the third housing project initiative by the company for its employees. Ever since the first housing project in 1989, the company is actively supporting the needs of employees to own their house. The company will continue to be sensitive to the needs of all stakeholders, and take steps to take care of their interests towards sustainable growth.

Now let us come to the quarter three. The demand momentum which built after lockdown continued quarter three as well, the festive period adding to the consumer sentiments. Usually the sales during the third quarter remains good on account of festival period and year-end phenomena. Sales this year was also on similar trend in quarter three. While the demand in the urban pockets started to improve during the quarter, the rural markets continue to perform well. As a result, the rural sales penetration stood at over 40% for the quarter.

Despite good performance in quarter three, the company's sales for the period April to December financial year 2021 volumes are lower by 18% year-on-year. It is also important to keep the long-term growth trends of the Indian passenger vehicle industry in mind, and industry sales CAGR during the decade 2000 to 2010 was 10.3%, which slowed down to 3.6% during the decade 2010 to 2020. In the five-year period ending March 2020, the growth was just 1.3%. The auto industry has been witnessing a structural deceleration even before COVID. How long the current demand momentum will continue? Is still to be watched for. Auto industry has a strong correlation with economic growth, and unless the economy sees a broad-based recovery, we have to remain cautiously optimistic.

During the quarter, the company ramped up production, while keeping health safety of the employees as priority, and made full utilization of the capacity to serve market demand despite supply chain hurdles. Though this quarter was good from sales volume perspective in terms of margins a significant increase in the commodity cost eroded the gains of higher capacity utilization. In this quarter, in addition to precious metals, the impact of steel was also pronounced.

Given the uncertainty on sustainability of demand, increase in input cost could not be passed on by way of price increases. However, the sales promotion expenses were controlled to a certain extent. The company has stepped up its efforts for cost reduction to partially offset the impact.

Coming to financial results now. These results have to be viewed in the context of the previous year financial year 2019-2020 at a sales volume growth of 16%, and therefore, lower percentages over the low base may not convey the correct picture. For the period October to December 2020-2021, the company sold a total of 495,897 vehicles during the quarter, higher by 13.4%, compared to the same period previous year. Sales under domestic market stood at 467,369 units, higher by 13%. And exports were at 28,528 units, higher by 20.6%.

During the quarter, the company registered net sales of INR 222,367 million, higher by 13.2%, compared to the same period previous year. The operating profit for the quarter was at INR 14,848 million, a growth of 19.3% over the same period previous year, on account of higher sales volume, cost reduction efforts, partially offset by increase in commodity prices, and adverse foreign exchange movements. Net profit was a quarter stood at INR 19,414 million, higher by 24.1% over the same period previous year owing to the above factors and higher non-operating income.

Coming to highlights for nine months April to December:

The company sold a total of 965,646 vehicles during this period, lower by 18% compared to the same period previous year. Sales in the domestic market stood at 905,015 units, lower by 17.8%. And exports what at 60,611 units, lower by 21.9%. During the period, the company registered net sales of INR 436,035 million, lower by 20% compared to that of the same period previous year. Net profit for the period stood at INR30,626 million, lower by 29.7% compared to that of the same period previous year.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: My first question was for Ajay. So you had earlier talked about how volume is one of the key drivers for our margin performance. Sequentially, our volume increased by more than 26%, but our operating profit has largely remained flattish. Can you please help us understand with the margin walk what happened during the quarter? And what within that can reverse in the coming quarters?

Ajay Seth: Yes. So, as I mentioned in the opening remarks that one of the deterrent to us this time was significant increase in the commodity prices and the uptick doesn't seem to stop, I think some impact of that will be seen in the fourth quarter as well. And we are now working to see what the impact of overall commodity piece is. This quarter saw an impact of almost 300 basis points y-o-y on overall commodity increase, and there was no pricing action that was taken by us in the third quarter. So that was largely the reason for the flattish margin.

Kumar Rakesh: Got it. Just to follow-up on that, so based on the current spot price, how much of incremental commodity cost is yet to impact our P&L, considering the price increase which we have already taken in this month?

Ajay Seth: So as you know that we follow a quarter lag on commodities, so really the impact of quarter two has come in quarter three, and the quarter three impact will come in quarter four. And commodities, unfortunately the precious metal continues to see a rise, and especially metals like palladium, rhodium and platinum, which now the consumption is going up because of BS-IV to BS-VI shift. So that's one area of concern. And second, of course, is that off late the steel manufacturers have significantly hiked the input costs, so that's going to be the other factor. So we are at the moment trying to compute in terms of what the impact would be in the fourth quarter and thereafter. But it's very difficult to say at this point in time, but there will be definitely an impact of commodity in the fourth quarter.

Kumar Rakesh: Got it. My second question was, what would be our strategy to manage these cost inflations, the cost efficiencies as well as price increase? So how essentially we are going to look at the balance between the margin performance and the price increases?

Ajay Seth: So, I think we will have to keep a balance between the market and the pricing action. We will have to see how the demand is. And while on one hand we are reducing the new sales promotion over what we had in the previous year, so that's helping us. But we have also taken surprising action where we have moved our prices in quarter four, I think it will be effective end of January. So there will be some impact to that we will see in quarter four. However, we will have to continue to gauge in terms of how the commodity cost moves up. And therefore, what are the actions that are required internally in terms of cost optimization further. So we have also looked at our supply chain very closely and looked at what are the other methods by which we can offset the commodity cost by various other initiatives that we can take up. So that work is on at this point in time.

Moderator: Thank you. The next question is from the line of Raghunandan NL from Emkay Global. Please go ahead.

Raghunandan: A couple of questions. Firstly, on the replacement demand, are you seeing signs of recovery? And what factors do you expect to drive a recovery in this segment? And secondly, congratulations on the Jimny launch, when can this model be expected to be launched in India? And also, sorry for squeezing the third question. Do you see any indication by government on possible hybrid vehicle incentives or CAFÉ norms postponement? Thank you so much.

Shashank Srivastava: Thank you for the question. So on the first question on the replacement buying demand, we have seen a sharp fall in replacement buying demand from about 26% last year to around 19% this year. So there has been a sharp fall of about 7%, even 7.2%. It hasn't really changed in last quarter, so I guess this is because we still find post pandemic, people are upgrading their vehicles a little less and holding on to their vehicles a little longer. That's also borne by the fact that the average age of the vehicle which is coming into the True Value, for our vehicles, for the preowned cars has gone up by almost 1.2 years, from 8 years to 9.2 years. So I think the replacement line has still not bounced back. Although, I suppose, with much better sentiments on the COVID front, I would expect it to bounce back again to around that level of 24%, 25% going forward.

On the second question of the Jimny. The Jimmy, as Mr. Seth said in his opening remarks, has been launched for the export markets. And we are currently evaluating whether the feasibility of it being launched in the domestic market. As you may recall, we had shown this Jimny at the Auto Expo in February 2020, and we got some really nice response. And we are currently studying the various aspects of the marketing as to when, if at all, we can launch that vehicle in India.

On the third question about the CAFE norms and the postponement of the other function emission norms, I would request Rahul Bharti to take over. Thank you.

Rahul Bharti: Sure. Thank, Shashank san. You asked about hybrid taxation, I think the realization and the awareness is gradually growing. Because of limitations of charging infrastructure, we need some other technology which is immediately scalable and which does not depend on charging infrastructure and still brings down CO2 to a large extent. So we are continuing in that information exercise. That is one. On CAFE, we are in discussion with the government and I think the government should take into cognizance all the entire context of COVID and other issues in the auto sector, the economic impact of regulatory stringency. So we will wait and watch the government reaction on this.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Two questions from my side. Firstly, we hear a lot about the shortage of steel, semiconductor, not just in India, even from the global OEMs. If you can just talk about is there any challenge, we can face and anticipate in the next three, six months due to these shortages?

Shashank Srivastava: There is a clear and distinct risk, but so far we have not been affected. And we are monitoring the situation month to month, week to week. But in case there is any fear of disruption, we will inform. So far we are not affected, but we are monitoring, for example, the next month, the next two months, the next few weeks. So far we are doing fine. And we hope that we should be able to run our line without any problem. But it's a distinct risk. Many other auto manufacturers have been affected.

Gunjan Prithyani: Yes. Okay. The second question was on the demand side, I mean, you did point out the risk of the macro and all, but can you just share more colour on what are we seeing in terms of retail demand over the last post festive, post year-end sale? And what kind of order backlog wait periods are there, if you can give some sense, is there any order backlog that we are carrying, because there are there are situations of stock outs in the market. So, if you can talk about that.

Shashank Srivastava: Yes, the post festive demand has actually been better than expected. After a very high festival demand, we were thinking that there would be a sharp fall, but there has not been a fall. And in fact, at the moment, we have a pending backorder for about 215,000 vehicles. So I think going forward, we would have a situation where the demand is chasing the supply, because supply, at the moment our stock levels are quite low. In fact, we started January with a very low stock, both in the factory as well as in the network.

Gunjan Prithyani: Sir, can you quantify the inventory levels?

Shashank Srivastava: I will do that. The factory stock at the beginning of January was around 21,000 vehicles in the network. And the factory stock was about 700 vehicles.

Gunjan Prithyani: Did you mention about the channel stock, maybe I missed it.

Shashank Srivastava: That's what I call the network stock, the channels stock was around 21,000 units.

Gunjan Prithyani: Okay. Just last question from my side, if I can squeeze in. These price increases that you spoke about, I mean, I understand we can't calculate what is the impact for this quarter four on the commodity, but the price hikes that we have taken in January, does that give us comfort that the inflation that we saw in Q3 has been largely offset? Or even there isn't cost absorption flowing through from past quarters well?

Ajay Seth: As we said that the inflation on account of commodities is pretty steep and we talked about number of 3%. So, we are taking a collaborative call-in terms of how much price increase we can do and how much of it should be absorbed by other means. So we are working on other measures. Whether we will be able to fully contain it is a difficult question to answer at this point in time. But we are internally definitely working on not only this price increase measure but also the other measures that we can take to ensure that the impact is minimized.

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

Jinesh Gandhi: First of all, can you share some numbers on discounts, export revenues and Gujarat production?

Ajay Seth: Discounts for this quarter were at Rs. 20,185 per vehicle and export sales Rs. 13,118 crores.

Jinesh Gandhi: And Gujarat production?

Rahul Bharti: We are at an annualized level of about 5 lakhs, we are at peak capacity.

Jinesh Gandhi: Okay. Secondly, if I look at the demand environment, it continues to be fairly robust. And we have waiting list for almost a month and a half or so, if not more. It suggests that the demand environment conducive to take price increases, any reason why we are not taking reasonable price increases to offset cost inflation or you see any fragility in demand even now?

Shashank Srivastava: Yes. In fact, that's a question which finance people often ask us. But we have to walk the fine line between the demand as well as the financials. So I think we were coming off from a very bad Q1 and we still are not very sure about the COVID sentiment part. Because as you know, while the overall auto industry has seen a month-on-month improvement in the last five, six months, in fact, Q3 has been pretty good as you just saw the numbers. But remember, if you compare it with the two years back, then we are still way off. And in fact, probably if you see April, December figures against the year before last year, we are still about 33% off. So I think while there is obviously a sense of relief, and even I would say a little bit of elation for the last three, four months. The way month-on-month has progressed, that we need to be careful and not overdo one thing suppose we hiked up the price too much, then we may be compromising on the demand.

On the sentiment side also we are still not sure on the COVID part, it depends on how the COVID pans out. Looks like better sentiment at the moment, but we can't be really sure. And is the reason why we have not been able to increase the price more than what we have done so far. Thank you.

Jinesh Gandhi: Okay. And sir, in staff cost we have seen a sharp increase on Q-o-Q basis, is that entirely linked to production or are there any one-offs?

Ajay Seth: The increase is firstly, on account of the fact that in the first half we mentioned that we had not factored any increments and we only have increments in the second half to employees. So, that was one reason. And second is that there is also a one-off in the sense that we had to make some provision for the retiral benefits, because interest rates had come down so they will now have to be accounted for. So about Rs. 20 crores kind of thing is one-time where we had to make additional provision for the retirals.

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

Kapil Singh: Sir, just want to talk about evolution of technology, how Maruti Suzuki is thinking about it in terms of hybrids and electrics. Where do you think or when do you think you would start launching some of these new technology vehicles?

Shashank Srivastava: So, for EVs, of course, you must be aware that the entire industry is quite excited. The entire industry, as you know, has been discussing this transition from ICE to EV, I suppose it is going to happen at some point of time. But at this moment, the adoption of EVs is miniscule, globally just around a couple of percentages. And actually, for the factors which have sort of hampered this EV adoption are three, one, the current battery technology does make the cost of acquisition of EV vehicles very high, cost of battery as you know is almost 50% of the cost of the EV vehicles. Second, the infrastructure for charging in our country is really small and maybe requires a lot of development before this adoption happens in a big way. And third is on the consumer part, our research shows there is a high amount of range anxiety, that is how much kilometers the car will go on a single charge. Besides as you know, in India, parking, unlike in Japan or U.S. where 85% of the cars are parked on the same spot every night, in our case it is just the other way, just around 12% cars are parked at the same spot every night. So, those are the hampering. And what Maruti Suzuki has been saying is that the path to electric vehicles in India will probably be through the hybrids and also because most analysts have been telling that the adoption in India would be around maybe 7% to 10% in the next five, six years. Which means that a large number of ICE vehicles will be produced. And we need to do something about the emissions for those vehicles, and therefore, we believe that the path to that ICE finally converting to EV will be to hybrid and also the use of alternate fuels types like CNG. And that is what we believe is going to be the path to electrification in India. And that is also one of the reasons why we have been saying that maybe the support of the government for hybrid vehicles should also continue in the future. This we believe is going to happen in the next few years regarding the electric vehicles. And as far as Maruti Suzuki is concerned, we are looking for volumes, we are looking for a sustainable business model rather than just an exhibition of technology. Thank you.

Kapil Singh: Thanks for the comprehensive answer. One question to Ajay sir. Sir, can you talk about evaluation of costs from where we are right now? What are the pushes and pulls, discounting, marketing costs, where are we right now? And are you at lower end, middle, in terms of where do you see them over the next year?

Ajay Seth: Right. So, the cost structure depends on many factors and one of them is how fast are we expanding our capacities. So, it will depend on our demand outlook and our capacity expansion plan. And earlier also mentioned that we have been in the past couple of years, we have been on the phase of putting up on more capacity, which means that as and when we start utilizing full capacity, we will find full benefit of the fixed cost. And in the interim, you might see a little hangover of the fixed cost, because there could be some underutilization of capacity, or when you initially set up a capacity, you cannot fully utilize it in the first year, it takes about a couple of years before you start utilizing your capacity. So that's one important ingredient of cost, and if the demand continues to be the way it is and capacity utilization gets better, obviously, there will be some play of the operating leverage that you would see. That’s one.

Marketing costs, this year we have been very conservative. We have not spent much of the marketing cost because of COVID and also because we were optimizing costs on all fronts, so we did that. But I think moving forward, we cannot afford to not do our marketing bit, because that's the cost not for immediate period but for future. So I think that's something that will definitely increase. By how much, will depend on what are the initiatives that we are going to take in the area of marketing and sales. So I think that's something that would see an increase from the levels where we are this year. This year, definitely we have not spent much on the marketing area. We continue to focus on all other areas of cost in terms of productivity gains, in terms of optimizing, in terms of digital initiatives that we have taken this year, how much can we reduce our costs by.

So I think these are some of the measures by which we will continue to directly focus on the areas of cost. We will spend where we think it is necessary to spend, and which is largely a long-term plan for us. But wherever we think that we can avoid or we can have some better methods of saving costs, we are working on that and we will definitely ensure to save costs. So directionally, I would say, one, operating leverage when capacity utilization is much better. Second, in all other areas we will try and optimize cost. In marketing also, we will judiciously spend, but given the fact that in future we will have more models coming in and digital initiatives are becoming more and more in our company. So I think that cost is bound to go up from where we are today. So that's broadly the sequence of our cost structure. Thank you.

Moderator: Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: To begin with, two housekeeping questions. What is the blended price hike what you have taken in January? And also, what is the royalty rate for the third and the second quarter, sir?

Ajay Seth: Royalty rate this quarter was at 4.9% and in the second quarter it was 5%, so a shade lower than the second quarter. The other question that you asked about blended price hike. Blended price hike, we don't have a immediate answer on that, but it will depend on various models and various variants, etc., based on that. I think the price increase that we have indicated in the market is at the ex-showroom level of up to 34,000, including the taxes. So you have to remove the taxes to see the basic impact. But 34,000 is the upper end, but I think it's starts with .Rs. 6,000 to about Rs. 34,000. Model to model it differs. So model wise it will differ, but to give you an exact percentage in terms of what will be the impact, we will come back to you. We don't have that data immediately with us.

Pramod Kumar: No issues. And a follow-up question to both the royalty and the pricing increase, first one is to Shashank sir. Given that financing penetration would be on the rise given the increase in cost post BS-IV to BS-VI and all of that, and because of COVID as well. So how is the customer reaction to the recent price hikes, have you seen some sort of hold up on conversion or anything like that? The reason I am asking is that, if the equity contribution from the customer remains more or less the same and the incremental price increases can be financed by EMIs which will not pinch them, given the current interest cost, is there a thought that probably the industry can afford to take more price hikes in this cycle as compared to historical cycles when rates were high, and the financing dependence was actually not that much. So how is the company looking at the data and thinking about this, sir?

Shashank Srivastava: So if you look at the data on the financing and retail side, the percentage hasn't really changed much, it's remained at that 80% or thereabouts, across the different months so far post pandemic. Even before the pandemic, it was roughly the same. As regards the other thing of whether the conversion itself has come down. As you know, we have a 215,000 bookings which are pending, and we haven't seen that conversion falling down at the moment. In fact, fresh booking flow has also been quite positive. So as you rightly pointed out, probably the effects would be seen a little later, maybe, but we have to wait and see, because it's just been a few days actually, we increased the price I think from the 18th of January. So it's been a very few days that we have seen. And in any case, we have a lot of pending bookings where consumers are waiting to get delivery for their vehicle.

Pramod Kumar: And Shashank sir, the reason I am asking this is, if you look at a category like two-wheeler, and most, if not all, most of your customers who buy a car are invariably already having a one or two or multiple two-wheelers in the household. And two-wheeler prices have gone through the roof in the last one year or so, the increase is well enhanced double-digit kind of a number, right? And car prices haven't actually increased that much in the last one year, at least, because of BS-IV to BS-VI. So in such high inflationary environments across categories, be it two-wheeler but every category is seeing massive price hikes. So can't that be the opportunity for the car industry to kind of at least pass through the cost burden to the consumer? And given the fact that 80% customers opt for financing, the incremental cost burden for them in terms of EMI may not be that kind of a deal breaker as such. Because a lot of pricing in the industry will depend on how you behave as a market leader. So I am just thinking, and if we look at other categories prices have really gone through the roof, premium category demand has not got affected in motorcycle, for example. So is there a thinking that whether we should probably look at from fresh perspective and probably at least pass on the cost? Which is kind of going to probably sustain for longer, because that's the feedback generally from the global commodity experts, that this may not go away in a hurry, the kind of prices what you are seeing on the commodity side.

Shashank Srivastava: Yes, so you are right. And from a financial point of view, clearly what you are saying is correct and logical. But if you look at the other side of the demand perspective, then I did mention that we still have a long way to go and if we compare with demand for the two years previous to the current one, we are still about 33% off from those highs. So I think we still have to maintain that fine balance of top-line and bottom-line. So I think the price hike if we were to pass on the entire cost of the increase in terms of material costs and other costs, I am sure you would see the demand evaporating quite a bit. And that is the why, of course, it's just an estimate. We keep making that assessment and try to maximize looking at both the top-line and the bottom-line.

Pramod Kumar: Sir, last one is on royalty. We have moved to this dynamic royalty regime some time back. So just want to understand, given the surge in volumes what you are seeing and royalty, a lot of these milestones are linked to the model performance and the model volume. So by when do you expect the benefits of such massive hike in volumes kind of accruing in terms of royalty? Because that is one cost reduction which could probably accrue to the company. And especially when prices are going up, Suzuki gets the benefit of a higher royalty payout without much kind of incremental work. So can that be a bit of a cost cushion for us incrementally? If you can just throw some light on by when do you expect royalty rates to start easing up a bit?

Ajay Seth: As we had said earlier that royalty there are two entities now that all the new models will move to the rupee formula, and quite a few of them have already moved to the rupee formula. But by the year 2023, 2024, virtually 95%, 96% of the models would have moved to the rupee formula. So that's one leg. Second leg of course is, if the volumes pick up then there is the second element of beyond certain volumes there is a discount that kicks in, so that will also kick in. So definitely, as we go along, there will be no uncertainty with respect to any exchange variation on account of royalty, that will go away and there will be a fixed amount that we know we will pay. And second, of course, is the volume discount. So both will help. And it will depend on what is the volume growth and how many models go in the discount category. But one thing we are very sure that 96%, 97% models will move to the rupee category, that itself will help and the volume discount will further help.

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

Binay Singh: Just two follow-on from previous question. In one of the responses, Mr. Seth stated that the key driver for margin expansion will be operating leverage. Could you please expand a little bit on that? Because when you look at December quarter, it seems that you are already running at very high-capacity utilization, so the incremental operating leverage should be very low in the business. So could you expand on, is my understanding correct?

Ajay Seth: So, I was largely referring to from a cumulative nine month perspective. But definitely, now we are reaching that level of capacity. And based on that, I think the kick in the operating leverage is visible now. As you see that in spite of a 3% increase in commodity prices we have been still able to maintain margins, and frankly, better the margin. So which itself means that there is some kick in of the operating leverage, otherwise the margins would have been much lower. So that's already kicked in. What I am also trying to say is that when we expand capacity subsequently, there will be periods where till the time we use the capacity fully, there could be some overhang of fixed cost which will eventually come down while the capacity is fully utilized. As we go along, if the demand continues to be robust and we need to expand, then typically one year you don't utilize plant fully, in the second year you start utilizing the plant fully. So there can be some play, of course, at that point in time. So if you compare this full year, obviously, in this full year the capacity utilization would be not more than 70%, 75%. So I was comparing the full year and not just the quarter. So if next year you compare the last year, definitely you will find the operating leverage.

Binay Singh: And secondly, one of the comments that the team made is that the replacement market share has come down quite sharply. Is that for Maruti or is that for the industry? Because we have also seen Maruti losing market share in SUVs, that typically there should be higher replacement segment. So, is that number that you shared for the industry or is it Maruti specific number, the 26 to 19?

Shashank Srivastava: Yes, so that number is similar for both industry as well as Maruti. And also, you are right about the SUV. So, if you see the passenger car, then our market share has actually gone up and also in the in the C segment, which is the van, gone up substantially and also in the MPV. But you are right, it is in the SUV category that we have lost some amount of market share. As far as the drive for demand is concerned; first time buyers have gone up 5% and the additional car buying has also gone up a little bit. So additional and first-time car buying has gone up, (+5%) and (+2%) respectively, and (-7%) for the replacement, and that trend is similar across the industry.

Binay Singh: Sir, how much is first time buyers now? Like it used to be 40% plus, so where is it today?

Shashank Srivastava: As per the current data which we have, it has gone up from about 43%, 44% to between 48% and 49%.

Binay Singh: And like we obviously in the media articles see a lot of news flow on Maruti and Toyota working on SUV, or Jimny coming to India. What is the management's comment? Because if you look at last five years, Maruti's ASPs have largely been stagnant. And that also has been a drag on the EBIT performance of the business. So does the company track ASPs or is there anything that you are doing in the SUV space that we should see better market share going ahead?

Shashank Srivastava: So on product side, I will not be able to give any forward guidance. That's our policy, we will not be able to give you the specifics. But as regards the SUV space on the entry SUV we are the market leaders with the Brezza. And also in the mid-SUV where we have one vehicle which is S-Cross, which sort of has underperformed in the market and we are just trying to shore up the volumes in that segment also. That segment is also pretty big, as large as the entry SUV market.

Binay Singh: Not model specific, but is it fair to say that SUV will be one of your key focus areas in future model launches?

Shashank Srivastava: We keep monitoring how the segments are moving. And you are right on the SUV front, which is just about 26%, last year it was around 32%, 33%, this year we are expecting it to go up to almost 36%, 37% in the next four or five years. So yes, we keep watching it. As regards what products to bring and in which segment, we obviously discuss and then take a view of what is possible and what could be beneficial to Maruti Suzuki in terms of market share. As you would have seen, when we introduced the Swift a long time back in the A2+ segment, as also the Baleno and the entry level Brezza in the entry SUV segment, Ertiga in the MPV segment. So our past record is that we keep watching for those white and blue spaces and try to see if we can improve our volumes through introduction of relevant products.

Binay Singh: Right. And lastly, could you comment a little bit about this memorandum of understanding that there's a change that you have come out with on BSE, what is the thought behind that?

Ajay Seth: So that Memoranda of Articles which you are referring to, it was first made in 1981, I think about 40 years back. So it did not have that element of specific digital platform and sale through those platforms. As you know, last few years, with the penetration of the internet and change in the consumer behavior, we have seen a huge change in the consumer buying process behavior, and people are preferring a digital route. And that's the reason why we have strengthened our digital platform. In fact, after pandemic it has become even more accelerated. And we have introduced some very class-leading programs under this digital platform, including the e-finance space, the marketplace, also the subscription service, the sale of accessories, the sale of spare parts on this platform. We are also going to introduce the True Value, the used car thing on the digital platform. So all this has made us realize that we need to change our MOA to incorporate some of these activities, which we are doing and we will be doing in the future. That's the reason for the change which you had just mentioned.

Moderator: Thank you. The next question is from the line of Pramod Amthe from Incred Capital. Please go ahead.

Pramod Amthe: A couple of questions on this digital initiative which you have taken. Is there a fair way to assess the conversion rates in this digital? Do they vary drastically between Arena and Nexa? And how do the incremental financing option which you are giving on the digital, you expect that to improve the conversion rates?

Shashank Srivastava: So conversion ratio and digital is different. Overall, of course, the conversion ratio varies between 12% to 13%. For digital, it is lower. However, the digital inquiries as a percentage of the total inquiry portfolio that we have has increased substantially from just about 3% in 2016 to 15%, 16% last year, and this time it's almost close to 35%. So while the conversion ratio for digital inquiries is less, however, we do find that the number of inquiries, the percentage coming from digital platforms has almost tripled. So that in a sense gives you an idea of how the digital inquiries and the consumers are inquiring more and more, researching more and more through digital platforms. That's the one which we are trying to catch with our process chain.

As regards the e-financing which you referred to, we just started it. Actually we began it with Nexa as a test case in a few cities with a few dealers in our cities. And we are now just a few weeks back started on the arena as well. And we will be adding more banks in that e-platform, and therefore with this short period of time it's done very well. I would say, the level of conversion is slightly better. However, we need to see over a period of time how it performs when we expand it to the other cities, as well as completely the entire Nexa and the Arena channels.

Pramod Amthe: Sure, thanks. And the second one is with regards to your product launches. Do you see structurally the way the digital you can use, do you think the launch expenses and hence your capability to launch, I would say, wider product range would be possible now? Was this what you might have thought three years back, any thoughts on the same?

Ajay Seth: Yes, certainly. So, actually digital allows, as you said rightly, lower expense, maybe for the same amount of reach or frequency. Of course, it has its own drawbacks as well as the positives, which you mentioned. But you are right, we can actually reduce the expenses of the launches through the determining factor. The last launch which we had was the S-Cross BS-VI 1.5 liter petrol in August, which was done entirely in the digital platform. And there we got extremely good response. And also the fact, not only was it less expensive, but also we could manage a lot of personalization and the messages to the consumers. And that's I think is the great positive of digital.

Moderator: Thank you. The next question is from the line of Satyam Thakur from Credit Suisse. Please go ahead.

Satyam Thakur: Sir firstly, could you share, you mentioned that there was some impact on margins sequentially in this quarter also because of the factory inventory sharp correction that we saw. So would you help quantify how much was the impact on margins because of that? And this would largely be expected to reverse going ahead as that factory inventory normalizes, right?

Ajay Seth: Inventories were low even in the second quarter, they were not very high in the factory. But yes, now I think factory has negligible inventory in the third quarter. And so the impact which was because of that fixed cost incidents was about 0.3%. So that 0.3%, depending on the inventory levels may get reversed or may improve, so that will depend on what inventories are at the end of the quarter four.

Satyam Thakur: Okay, thank you. And secondly, on the Jimny, so incrementally, I mean, till the time we launch something in India in the domestic market, the volumes on exports could be quite low. So, how should one think about profitability on this model with this kind of volumes? Will it be much lower on profitability or will you price it appropriately to kind of keep profitability similar? And secondly, volumes like currently if one sees, what is the kind of sales Jimny does in these markets, Mideast, Africa and LATAM, that seems quite small. But one believes that there is a lot more potential because apparently there is a big issue on supply of Jimny at this point of time, because of the high demand in Japan. So any sense if you can share on what could be the potential volumes that we are looking at in these markets?

Rahul Bharti: We have just started the export of Jimny, we need to go further into time to understand how the business is, what kind of volumes we are able to get. And as of now, it is a small addition to our exports. And in our overall volume, the fraction would be even smaller. So how much it impacts? I think we still need to take some time and understand. But overall, in terms of volume percentages it is not very high.

Satyam Thakur: And would we be limited to these three markets? Or can we also export to Europe at some point?

Rahul Bharti: As of now we have started in some markets, Europe has a lot of regulations, and almost every export to Europe keeps stopping every about four or five years because of some new non-tariff barriers or some new technical regulation that they bring in. So as of now, Maruti is not exporting to Europe. So we will see as it goes along.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. On behalf of Maruti Suzuki India Limited, we conclude this conference call. Thank you for joining us. And you may now disconnect your lines.