Q2 FY21 – Investor Conference Call

October 29, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Maruti Suzuki India Limited Conference Call. 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 would now like to hand the conference over to Mr. Pranav. Thank you. And over to you, sir.

Pranav Ambaprasad: Thank you, Janis. 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 our Member Executive Board -- Mr. R.S. Kalsi; Executive Director, Marketing and Sales -- Mr. Shashank Srivastava; from Corporate we have 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 concall 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 questions.

May I remind you of the Safe Harbor, We may be making some forward-looking statements, that has 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. Let us start with some of the milestones which our products have achieved recently. Alto, India's #1 selling car for 16-consecutive years with over 4 million proud owners, and preferred choice of first time buyers in India, celebrated 20-years of setting unmatched industry benchmarks.

Baleno, The Best Selling Premium Hatchback since 2016, has achieved a milestone of 800,000 sales in record time of 59-months.

Vitara Brezza, India's #1 Compact SUV achieved a milestone of 550,000 sales within a short span of 4.5-years. This is by far the fastest by any Compact SUV.

In addition to these, our contract manufacturing company, Suzuki Motor Gujarat Private Limited or SMG has achieved cumulated automobile production of 1 million units on 21st October 2020. SMG becomes the fastest production site of Suzuki to reach with 1 million units in just three years and nine months since starting production in February 2017. These milestones speak about the strength of the Company in the Indian passenger vehicle market.

Now, let us come to the Q2: This quarter saw a good demand recovery after significantly low sales in Q1. Though the local lockdowns during the quarter in various parts of the country affected the sales operations, the sales momentum did not slow.

In addition to the past deferred demand, the sales were also driven due to increased preferences for personal mobility in wake of pandemic.

The share of first-time buyers has increased while the share of replacement buyers has come down.

Also, the demand has seen shift towards small cars, which is evident from the change in product mix of the company.

Rural markets continue to see higher growth compared to urban markets. The festival period in Kerala and in West was good and saw growth.

The attractive vehicle financing schemes also played an important role in maintaining the sales momentum.

CNG, a clean air and affordable alternate fuel for vehicles continue to see increased acceptance with increase in CNG distribution network. During the quarter, the sales of CNG models posted a growth and now commands a penetration of 11.2% in overall sales of the Company compared to 7.1% during the same period last year.

In export markets, the demand condition improved gradually and accordingly, the export volumes increased month-on-month.

The deferred demand appears to be one of the main reasons for improvement in sales and so the sustainability of demand needs to be carefully watched.

During the quarter, the supply condition also improved progressively. The Company could overcome challenges and improved average throughput per day from 3,100 vehicles at the start of the quarter to nearly the rated capacity by the end of the quarter. The timely start of second shift in Gujarat plant helped improve the supply situation.

Though the local lockdown affected the supplier operations in some part of the country, the Company was able to manage and avoid disruption in the manufacturing of vehicles.

As a countermeasure, during the uncertain times, the Company also relaxed some component inventory norms to ensure business continuity.

Cost pressures due to lower capacity utilization, increase in commodity prices, and adverse foreign exchange movements remained during the quarter. In commodities, precious metals like palladium and rhodium saw significant price increases.

Due to uncertainty about the stability of demand, the necessary price increase to offset the cost impact could not be taken.

The Company accelerated cost reduction efforts and reduce operational expenses in a region to reduction in material cost, lower sales promotion coupled with aggressive cost reduction efforts helped improve the margins.

Now coming to Financial Results, the Company sold a total of 3,93,130 vehicles during the quarter, higher by 16.2% compared to the same period previous year. Sales in the domestic market stood at 3,70,619 units, higher by 18.6%, and exports were at 22,511 units lower by 12.7%. During the quarter the Company registered net sales of INR 176,893 million, higher by 9.7%, compared to the same period previous year. The operating profit for the quarter was INR 11,677 million, a growth of 71.7% over the same period previous year, on account of higher sales volume, lower sales promotion expenses, lower operating expenses, and cost reduction efforts partially offset by increase in commodity prices and adverse foreign exchange movement. Net profit for the quarter stood at INR13,716 million, higher by 1% compared to the same period previous year. The net profit in Q2 of the previous financial year ’19-20 was higher due to mark-to-market gains on the invested surplus and lower tax provision. As a result of this, while the operating profit increased by 71.7% during the same period previous year, the net profit increased by 1%.

Coming to the Highlights for the First Half, Company’s Performance needs to be seen in conjunction with COVID-19 related disruptions. The Company sold a total of 469,729 vehicles during the period, lower by 36.6% compared to the same period previous year. Sales in the domestic market stood at 437,646 units and exports were at 32,083 units. During the period, the Company registered net sales of Rs.213,668 million, lower by 38.7% compared to same period previous year. Net profit for the same period stood at INR 11,222 million, lower by 59.8% compared to same period previous year.

After Q2, looking at good demand conditions during Navratra festival, the demand outlook for Diwali festival until December appears to be good. However, there is not sufficient visibility beyond that. There are positive factors like rural economy strength, and there is uncertainty around how the COVID scenario progresses. In several countries, the second wave of COVID has started disrupting the economy. In India, if people movement during festival period increases, it may have some bearing on the levels of COVID infection.

Overall car demand has a strong correlation with the economic growth of the country. And so it will depend upon the Indian economic growth and job creation.

On margins, the cost pressures continue to remain high with further likely increase in commodity prices.

Finally, we would like to say that unprecedented crisis call for extraordinary efforts. Your Company’s management will leave no stone unturned to deliver best results and maintain the safety of its people through the entire value chain and customers at the same time. We are now ready to take your questions, feedback, any other observations that you may have. Thank you.

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

Kapil Singh: Your commentary covered a lot of aspects. I will just pick up firstly, from the demand side. You mentioned that there is some defer demand also coming back. Could you talk a bit more about it, give some color, are these customers who wanted to buy who are coming back or are there new set of customers who are looking to buy cars now because of personal mobility and how do you think this evolves going ahead? And also, if you could share rural and urban growth and the rural contribution?

Shashank Srivastava: Thank you for the question. Regarding the first part of your question, which is the demand pattern, I think it is a mix of both. We have a lot of pent up demand, as you know, after the hard lockdown, which we saw in the last week of March, it continued through April, and in fact, part of May, April sale was zero, May was very little sale; it was I think only about 13,000 or so. So, I think there is a lot of element of pent up demand. Also, you are right, we have observed from consumer interactions and from consumer research that a lot of consumers are now preferring personal mobility instead of using public transport or shared mobility. So, I think there is that element as well, and we have seen a lot of buying therefore is for utility and functionality rather than aspiration. And that is one reason why replacement car buying has actually come down and first-time buyers have gone up. Regarding the second part of your question, which is the rural-urban demand, yes, it does appear that the rural demand has bounced back a little better than the urban one. And I think there are many reasons for it; monsoon has been fairly widespread across the country, except a little bit in the North, is positive about 7%, kharif sowing is plus about 7% and rabi crop, as you know, has been a record 6% above last year, and also the negative effect of COVID sentiment, is actually not so much in the rural areas. As a result, what we have seen is that the rural bounced back especially in Q2, the rural growth was just above 10%, and as a result, there was a increase in the retail share of the rural areas in our portfolio to almost 41%, this was about 38.5% last year. Thank you.

Kapil Singh: Secondly, is there any delay in the model cycle because of the pandemic and when should we expect the first joint product of Toyota and Maruti to get launched, any color on that would be helpful?

Shashank Srivastava: Regarding the delay in model launch or a change of a model launch plan, the answer is no because as you know, in automobile the cycle of introduction of new cars, from the point we decided to have a new model, is around 36 to 48 months. So, even the extreme events like the pandemic which has been here for some time would not significantly alter those plans. Because remember, a model is introduced not just for one year, but for a long period of time. So, the answer is no. There could be delays in development. However, that is something which can be made up as we go along. On your second question, I am sorry, we will not be able to give you a forward guidance on product plan as per our guidelines. Thank you.

Moderator: Thank you. Next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Can you throw light on how is our retail sales during the Navratra and Dussehra put together?

Shashank Srivastava: So I can give you a sense of what has happened in the Navratra period, but cannot give you the entire October expectation, because that is forward looking. But for the Navratra period, the deliveries which we have had, is about 96,700, and we have bookings of about 85,000. The number was 76,000 deliveries last year for the same period.

Jinesh Gandhi: Second question is to Seth sir. Would you be able to share discount data as well as exports number?

Ajay Seth: Jinesh, discounts in this quarter were at INR 17,300 average. And they were much lower than what they were last year. Because last year, we were clearing the BS IV stocks, therefore, we had high schemes running. Discount last year were over INR 25,000 and this quarter it is around INR 17,300. That is on the discounts. On the exports, our export sales were at Rs.1,011 crores this quarter compared to Rs.1,230 crores.

Jinesh Gandhi: And sir, just a clarification on the other expenses. Were there any one off expenses or any mark-to-market of royalty and other expenses, because on YoY basis there is a reasonable increase especially considering our cost cutting initiatives, should that have been lower?

Ajay Seth: Jinesh, there is always an issue of regrouping because we mentioned earlier also that the uniform rate recovery that gets built in operating income and expenses. So, there is a difference of Rs.150 crores increase because of that. Rs.150 crores is what added on to the operating income and Rs.150 crores has also got added on the expenses. So if you take that off, then the comparison will become more meaningful.

Jinesh Gandhi: But were there any mark-to-market on royalty?

Ajay Seth: No, there was no mark-to-market on royalty.

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

Gunjan Prithyani: Sir, you mentioned that retail growth for rural was 10%. Would be possible for you to share what was retail growth overall for Q2?

Shashank Srivastava: It was about 4%.

Gunjan Prithyani: The second question is what was the royalty percentage in this quarter?

Ajay Seth: Royalty was at 5% this quarter compared to 5.3% last year.

Gunjan Prithyani: If you can talk about the channel inventory levels for Maruti, how are they placed in the market going into the festive season, if you can give some sense on that?

Shashank Srivastava: So network inventory for Maruti, we started off the month with about 120,000. And we have to wait till the end of October to see what the inventory level would be.

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

Raghunandan: Sir, my first question was on the diesel mix for industry and Company. Can you indicate? Also, you had been evaluating re-entry into diesel segment. Any updates there? Has there been any improvement in replacement and urban demand and by when do you expect things to normalize there?

Shashank Srivastava: So first of all, your question about the diesel contribution. So, the industry diesel contribution dropped to 17.8% so far in this year and for Q2 it was 17% for the industry. As far as Maruti Suzuki is concerned, you know we have zero percent diesel. So, if you look only at the competition the competition diesel percentage was about 34%. As regards our plan for diesel, we have already mentioned that we are watching the situation, we are collating data to see what is the consumer preference. So far because of the convergence of the fuel prices between the petrol and the diesel, as you know, there are many states where the price of diesel and a liter of petrol is almost same. What we have found is for Hatches and Sedan there is hardly any diesel percentage now, in fact, it is 1.5% for passenger cars. It is only in the upper SUV segment. In the mid SUV segment, there seems to be a certain amount of traction for diesel. So, we are watching the situation and we would make an appropriate decision once we conclude whether in such a segment such a diesel vehicle is required or not. What was your second question? I forgot that.

Raghunandan: Sir, has there been any improvement on the replacement and urban demand during the festive season? By when do you expect things to normalize in these two categories?

Shashank Srivastava: So replacement buying actually has been coming down. While there is a good demand for pre-Owned cars, the replacement demand in the H1 was about 18.8% against 26.4% last year. There does seem to be a little bit of improvement in this month. I do not have the final figures for this month which I will be able to give only in November. And yes, urban demand also has been a little better in this month so far.

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

Pramod Kumar: My first question is to Shashank. It is kind of not related exactly to Maruti, but more on the rural economy and the and the divergent behavior this time around because historically, rural economy does well all the categories of autos in rural economy tend to do well, but this time around what we have seen is significant demand for tractors and cars in the rural economy and two-wheeler demand seems to be languishing. So, if you have any read there in terms of what is working for the passenger car customers and not for two-wheelers, if you have any color on that diverted behavior, will be helpful? Also related to that, just to check, are you seeing that even within your customer profile, there is some bit of a stress on the first-time buyers in terms of people who earlier planned and enquired to buy a car and who are probably going and settling for a used car which probably could be kind of link to the consumer pyramid or the earning profile of the consumers, if you can spare some thought on that, that would be really helpful sir?

Shashank Srivastava: So, I will take the second part of the question first. As regard the lowering of consumer demand, because of the expectation of a lower income level or a loss of income or a loss of job or whatever, yes, we do find there seems to be a telescoping of demand downwards in terms of the choice of the consumer. And therefore, what we believe is that there has been a turn from the conspicuous consumption to more conscious spending. And therefore, there is more functionality buying rather than aspirational buying. And that is reflected in first time buyer actually going up. In our portfolio, for example, and I think that is true for the industry as well. There has been a 5% jump as far as the first-time buyers are concerned from about 43.4% last year to slightly above 48% this year. As regards your first part of the question about the divergence in demand in different categories in rural areas, I think even for two-wheeler so far, as far as we know, because we do not have the exact data for rural demand for two-wheeler. But I think overall the rural demand for two-wheeler also has been strong. It is only in this month I am told by the industry observers that there seems to be a softening of demand for two-wheeler in the rural areas. But so far if you see in Q2, both passenger cars as well as two-wheelers have grown; two-wheelers grew 7% overall, and passenger vehicles grew 17% overall for Q2.

Pramod Kumar: You are referring to the wholesales here, right?

Shashank Srivastava: That is right.

Pramod Kumar: Oh, no, I was talking about the retail performance. Sorry. The retail data is something very different.

Shashank Srivastava: Not really especially for passenger vehicles. And as I said, I do not have the exact information on the retail sales of rural two-wheelers. But what I gather from people in the industry, that except for this month, the retail demand for two-wheeler, even in the category of two-wheelers has been pretty strong. As regards the other question which you asked about the pre-owned cars, yes, there seems to be a huge jump as far as the pre-owned car demand is concerned, and the pre-owned car actually enquiries were up close to 40%. However, it has not reflected in the actual sale. And one of the reasons is because there are fewer vehicles in the market for replacement, because people are holding on, I guess. Our research also shows that people are holding on to their vehicles for a longer time before they bring it to the market for replacement buying. And that means that there is a shortage of vehicles in the market as far as pre-owned cars is concerned.

Pramod Kumar: My second question is to Ajay sir. You talked about incremental cost headwinds which you are facing in third quarter, but I believe given the demand what you have had so far in the inventory situation of the dealers, is it fair to assume that the third quarter should be from a directional perspective should be a tailwind in terms of production volume of the company?

Ajay Seth: In terms of production volumes, we have already said that now we have been able to reach the peak capacity, and therefore, if the demand outlook continues to be good in the third quarter, and we are also able to continue to produce at a pace at which we have been producing in the last couple of weeks almost at full capacity, then of course, we will be able to have a significant operating leverage in our business. So, I think it will all depend on the next three months demand outlook, which so far seems to be good as Shashank-san has indicated, and production also, we are now virtually working on a full capacity in both the plants; Haryana as well as Gujarat.

Pramod Kumar: And finally, can you share the Gujarat sourcing numbers done by Maruti Suzuki from SMG plant for the quarter?

Ajay Seth: Gujarat was 96,835 units that we sourced during the quarter.

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

Binay Singh: Just a clarification on the previous question. So you are running now at around 100% utilization rate, right?

Ajay Seth: We are now almost about between 85% to 90% of our capacity and we are kind of inching up based on what the outlook for demand is and accordingly gearing up for what is required for the market.

Binay Singh: And even when you say 120,000 units of inventory at the start of October, is it fair to assume that that is lower than what you typically have at the start of festive?

Ajay Seth: Inventory factor is something that we are really considering. I think one important thing that also needs to be looked at is that production will also depend on the number of working days and unfortunately November will be a month where you have holidays because of Diwali festival and so on. So that puts a little bit of constraint in terms of the elbowroom we have for those four or five days that we shut down because of the festival, but other than that I think for the remaining parts of the days, we will go full all in terms of our capacity.

Binay Singh: Lastly, just on the model cycle, as you know, there are a lot of media articles talking about Maruti launching five to six SUVs in the next three years. I know the company would not comment on it, but could you directionally comment a little bit about the ASPs. Between FY’15 to ‘18 we saw 8% CAGR growth in ASP which was a key driver for your EBIT per unit, but in the last two years your ASP s have been almost flattish, so, could you guide a little bit about how do you see the ASPs going from a three year timeframe?

Ajay Seth: So, ASPs have been rising because we had a considerable mix change and the SUV segment has been growing in our portfolio, which increased the ASP across models. Our mix was pretty much constant last year and discounts were very high last year, so that was a reason why ASP has not increased. This year, we are without diesel and diesel was almost about INR 100,000 more than petrol. So, that is impacting the ASPs, though the discount as I mentioned to you is about almost Rs.8,000 lower than same period previous quarter, yet the ASPs have been lower because of this impact of diesel and also I think in the beginning Shashank-sab mentioned that there is some shift towards the hatches and smaller cars. So that also has some impact on the average realization per vehicle. Moving forward, our ASP will largely depend on our new model launches and the way the product mix changes. And based on that it will determine whether it will go up and by how much.

Binay Singh: My question was that, I know Maruti will not share details on model cycle, but you guys would know what you are planning to launch in the next three years or so. So looking at that directionally, do you think would you be in a higher single digit range. The Company has been flat on ASP for the last two years, so I am just trying to sort of see where in the range will you be?

Ajay Seth: I think let us keep it for the future because these are all interlinked things in terms of ASPs and model launches. And sooner than later, I think you will get to know about our plans as and when we release them. But one thing we can always ensure you, as I mentioned at the beginning in my speech, that our endeavor is to maximize the interest of all the shareholders and ensure that on all parameters, we try and improve wherever required, but I would not be able to comment on specific numbers at this point in time.

Moderator: Thank you. The next question is from Rajesh Kumar from BNP Paribas. Please go ahead.

Rajesh Kumar: My first question is for Mr. Seth. You have earlier talked about volume being a key margin driver for us. And we used to do 11% to 12% EBIT margin when the quarterly volume used to be around 480,000 to 500,000 units. For the last year or so, our quarterly volume has been around 400,000 units. So to get back to that 11% to 12% EBIT margin, will we need the volume to go back to 480,000 and 500,000 in between those levels or we are working on lowering our cost structure to reduce our operating leverage and get back earlier than reaching 480,000?

Ajay Seth: The operating leverage is one of the big factors for margin improvement because your fixed cost, if let us say is constant, it is only getting absorbed for the number of units you sell. And if you are able to sell those extra units, it all goes on to the marginal cost because your fixed cost is constant. So I think that is one big driver. And I said in the last year when I commented, we are losing about 4% margin on part of operating leverage. So once that volume comes back, there can be significant play. But there are many other factors that needs to be considered; there are some positive factors and some negative factors, positive being last year discounts were very high, this year, the discounts are much lower than last year, so that is a positive. On the contrary, there is some pressure on the mix, mix is a bit negative because of change in mix that we have seen, diesel going away, etc., The third important factor also is the commodity prices. That has hit us very badly this year, especially the precious metals. And just to give you a number, almost 1.2% or 1.3% of the margin impacted between last year and this year just on account of the commodity prices and foreign exchange impact of about 0.5%. So these are some of the factors that will have the adverse impact and there are factors which will have favorable impact. So when we look at our margins, we work on all these factors, some are controllable, some are not controllable, and then accordingly, try and build our margins. Unfortunately, we have not been able to do any price correction for a very long period of time given the market conditions, etc., So at some point in time, when we believe markets have stabilized, and there is a scope, that will also help us correct our margins at that point in time.

Rajesh Kumar: Sorry for asking the question again on model launch, I will try asking in a different way and hope to get an answer. Can you guide us a number of refreshes and new name plates you will be targeting in near to medium term? I am not looking for specific models, but the number of refreshes and new name plates?

Shashank Srivastava: As you know, we have always been very strong as far as product portfolio is concerned. We have always been launching new models every year, even last year when market was down 18%, we did launch two absolutely new models, S-Presso in September and also the XL6. So going forward, also, we have a very aggressive plan for our product portfolio, and you will soon know as soon as we are ready to launch those products.

Moderator: Thank you. The next question from Amyn Pirani from CLSA. Please go ahead.

Amyn Pirani: I just wanted to go back to an earlier question which you answered on the other expenses. The INR 150 crores that you mentioned on the freight recovery, even last year there would have been some numbers. So, is INR 150 crores a YoY change or is it the absolute number in the other expenses?

Ajay Seth: INR 150 crores is the YoY change, not absolute number.

Amyn Pirani: And this number would keep changing in line with volume growth, is that a correct understanding?

Ajay Seth: That is right. And therefore, one will need to regroup the numbers to understand it better in terms of how the overheads have actually moved during the period.

Amyn Pirani: Just on the Gujarat capacity, can you confirm the timeline of the third line of 250K, is it January of next year or is there a change in that?

Ajay Seth: Requirement would all depend on what demand do we have for our products and accordingly when do we need to actually get to a plant utilization. So, it will depend on that. And we will be closely keep monitoring the demand and then decide on when do we need to get into the third plant.

Amyn Pirani: Just to clarify, as of now, only Baleno and Swift come from SMG, right, or are there any other models?

Shashank Srivastava: That is right.

Moderator: Thank you. The next question is from Ronak Sarda from Systematic Securities. Please go ahead.

Ronak Sarda: The first question for Ajay Seth. Sir, you called out commodity cost increases as the headwind. Would you be able to help us how much impact has come in Q2 and what kind of increase are we seeing over the next six months?

Ajay Seth: We mentioned to you that on commodities, there has been an impact of about 1.4%, or thereabouts between Q2 of last year and Q2 of this year. So with the sales numbers, you will get the value. That is one. And second, we are now seeing the impact on account of certain other commodities where we could negotiate till now on the old basis, and increase specially steel, where now all the steel makers are contemplating for some increase on prices. Rhodium has been a troublemaking commodity for us all throughout. Rhodium prices have tripled over the last year. And that is where we are very concerned because that is giving a large impact. And this is largely because most of these mines are now working with very less manpower because of COVID and therefore there is a problem of output. But we believe that as and when the situation gets okay, the production gets normalized, the prices will also come back to a reasonable level. So till then I think we will have to live with it and we will have to bear the increase. So, we see some more headwind on commodities in the third and fourth quarter, especially because of the reason I just mentioned, steel and precious metals.

Ronak Sarda: Would you like to quantify, I mean, could it maybe another 1%, 1.5% or that would be too much?

Ajay Seth: Difficult at this point of time to quantify. Firm prices for most of these commodities are still under negotiation

Ronak Sarda: And second question for Shashank. Last quarter, you highlighted how the industry volumes have shifted for top-10 markets, I mean, would you have the number for let us say Q2 and October is still going on, but are we seeing the top-10 markets coming back, is the share increasing in that sense?

Shashank Srivastava: I can give you some sense in the top 10 cities, if that helps you? So, in the top-10 cities, if we look at '19-20, the industry contribution was 36%, and it was similar in the same period previous year, which was in '18-19 as well. But if you are now talking of let us say, '20-21 or, let us say till September, then it is a little lesser at around 31.4%.

Ronak Sarda: But my point was during navratra a sharp growth, almost 25%, what you have highlighted, is this the contribution from top-10 coming back in this, I mean, the numbers reflect or still stable at around 31%, 32%?

Shashank Srivastava: I will not be able to give you the October numbers, because it is still going on, but I would expect around 30% to 33%.

Ronak Sarda: So it is still more stable and the other markets are contributing?

Shashank Srivastava: Yes.

Ronak Sarda: Last on the financing side, are we seeing of financing for Maruti and overall on the industry side as well from what it was, let us say in the first quarter, how the financing behaving?

Shashank Srivastava: Yes, so it is like similar, if you look at it in terms of the penetration level, it is 80% this year, September was out also 80%, it was at 80.1% last year. So I think it is also reasonably stable. Now, I think the liquidity is much better. And even the interest rates have come down. So, I think it is getting better, I would say; however, still I believe it takes a little longer for loans to be disbursed probably because banks are a bit more careful and doing their checks a little more.

Moderator: Thank you. The next question is from Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Sir, my first question is more of a housekeeping. So, when you refer to delivery, it is equal to retail, right, there is no major difference between deliveries and retail sales for you?

Shashank Srivastava: Actually, at the time of delivery, you need to have the registration also in most states to be in place. Therefore, there could be a small lag between retail reported and the delivery.

Chirag Shah: And sir, secondly, last year the 76,000 numbers, how was the last festive, if you can just share like was it flattish or was it a big decline or was it a growth the 76,000 number that you indicated last year?

Shashank Srivastava: Last year and the year previous were similar; the previous year was also around 74,800. But remember, there is a little bit of difference in the dates and I am referring to not the dates but the dates of the Navratra period. In '18-19, the Navratra period was from 10th October till 19th October. Last year, it was from 29th September to 8th October. This year it was 17th October to 26th October.

Chirag Shah: Sir, slightly a longer-term question. So we are seeing probably for the first time a sharp jump for the entry level category and you have explained it very well the reason for that because never in the past, we have seen that the entry level share jump goes up versus the previous year. Now, is it a temporary phenomenon or this could be a new normal with the income level start revising? And how much time do you think it will take because basis on phenomena, it would take slightly longer based on your assessment?

Shashank Srivastava: So actually, we are not so sure, because it all depends, I suppose on the COVID situation you are right. Over the last, if you take a long-term past, then, of course, there has been a decline in the hatches segment, it has been coming down. However, actually, if you look at Q2 of this year, as well as for this whole financial year, it has gone up. And I suppose it has got to do with that shift towards more functionality buying that I referred to in the earlier part of this session, as also the telescoping of demand which some of you have rightly pointed out.

Chirag Shah: What would change it because ultimately replacement buyer has to come back or even the first-time buyers are in a sense downgrading because in the past, even the first-time buyers were looking to trade rather than just buy the base version of a car, is it more of an income issue, is it more of a sentimental issue, how we look at it, and in your best estimate when things could actually turn for the industry?

Shashank Srivastava: I think it is a mix of both; people are expecting lower income levels, there is also a stress on businesses. So I suppose the choice of moving downwards is reflected in that buying, as also psychologically, I think consumers are now looking at avoiding public transport and shared mobility and hence the demand for personal mobility. That is one. As regards when it would come back to replacement, now replacement buying your right has come down, but remember, the first-time buyer has been remarkably constant in the industry for the last 20-years. In fact, I have been observing that range of 44% to 48% of first-time buyers has been there probably because of our demographics. So I think long-term, you still have that large percentage of first-time buyer. Yes, there seems to be a switch between replacement buying and additional car buying. Right now, the additional car buying has increased whereas replacement car buying has reduced. But if you look at the long-term trend, I think the replacement buying should also come back.

Chirag Shah: And the first-time buyer is basically a person does not have any car in his name, right, it may there in their family, maybe in somebody else's name in the family, but in his name it is the first car that is how you define first-time buyer?

Shashank Srivastava: It is a industry standard definition. It is not Maruti's standard. The percentages, which I am referring to is first car in the household.

Chirag Shah: Just a follow up for Ajay Seth sir. Would it be directionally correct that higher the product profiling, the upgrading, better the margin profiling also, not into the absolute demand in terms of percentage, more Brezza you sell versus more Alto you sell, the margin profiling would also be different or the Brezza would be a higher margin profile versus Alto? Would it be a right statement?

Ajay Seth: I think we have been answering this question in virtually every concall that the margin profile of all products will vary depending on how you position them in the long-term. Sometimes the smaller models can give you a better margin, sometimes bigger models can give you a better margin. It all depends on how you have been able to position and how over a period the cost out has happened on a model, and what is the discount profile on a model. So all these factors will determine what the margins are in each model. And we work on a basis of blended margin every month. And that determines how our margin trajectory is moving. And the impact of mix is depending on the little shift here and there. It is not only just the product, it also depends on the variant that you sell. So there are a variety of factors, there is not just not one, which will derive the margin trajectory. And for us, what is very important is that on the blended basis, it should kind of be as per our expectations. The only big change that has happened is that we moved out of diesel last year. And to that extent, there will be an impact on the mix because of the shift from diesel to petrol now.

Chirag Shah: One clarification on the discount. You said it INR 17,000 around for the quarter?

Ajay Seth: INR 17,300 for the quarter compared to about INR 25,000 last year. So there is a difference.

Moderator: Thank you. The next question is from Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Sir, could you tell us, one, what was the Q2 retail number? And also the discussion that we are having on first-time buyer share increasing and replacement sort of going down, I understand that might be holding true for Maruti, but if you look at the first half data for the industry, we are actually seeing a share increase especially like SUVs, etc., So I mean, would it be correct to say that at an industry level, the replacement share is going down, I mean, how would you look at that?

Shashank Srivastava: For the first part of your question for Maruti Suzuki, Q2 retails were about 320,000 against last year of 308,000, so there was an up of about 4%. As regards your question about the SUV percentage going up, it is true, SUVs have gone up, but it is also because some of the new models have been introduced in the industry, industry is also quite sensitive to the new model introduction. SUV, by the way, the trend has been for the last few years going up, in fact, it was just about 12% five, six years back, it was about 26% last year and about 30% this year. As regards the type of buyer which you asked, the first time buying in the SUV segment is actually increased about five years back or four years back according to the NCBS data. Among the first-time buyers 7% in 2014-15 used to buy SUVs, that has increased to 14% last year. So there seems to be a traction for first-time buyer also to go into especially the entry SUVs.

Sonal Gupta: Sir on the used car side, just wanted to get your broad thoughts on not from a COVID perspective or something, but do you think that in a way used cars would be competing with the entry level segment or how do you look at a used car in terms of the buyer profile versus say the entry level buyer profile?

Shashank Srivastava: So I would like to clarify straight away because I think your earlier question also had a hint of that understanding, which is this is not about evaporation of demand when we say that the demand is moving downwards, does not mean evaporation of demand in any segment, it is just what we mention in marketing terms, "Telescoping of Demand". It is just that the demand shifts from the upper segment to the next lower segment. That observation is actually what pertains to the next question that you asked, which is regarding the pre-owned cars competing with the entry level cars. So surely there would be customers in the entry level cars who might be considering a lower or more value car in terms of the pre-owned cars. So similarly pre-owned car guys might be considering a two-wheeler, for example. So I think that is how the demand would shift downwards in the current scenario. On the long-term, apart from the pandemic that you mentioned that this question is not with reference to the pandemic, specifically. Yes, the pre-owned car demand actually has been about 1.4, 1.5x the new car demand, and that I suppose will continue in the future as well.

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

Satyam Thakur: Sir, I had two questions. Just to get a status update on the two new schemes that you have launched some time back; firstly, on the financing, you had come out with this "Buy Now Pay Later" kind of schemes, and you mentioned in your opening remarks that this year, the current strength in sales also is driven by one of the factors being innovative financing schemes. So, can you share what kind of offtake or adoption we have taken for this financing scheme? And also, can you just reconfirm that are we doing any subvention in this scheme or partaking any of the risk attached to this kind of a scheme?

Ajay Seth: So I think from time-to-time, we have been floating schemes to ensure that we get good quality credit customers who may because of the strict norms of either the banks or the NBFCs do not qualify by a small margin. And therefore, we have been getting into those schemes with some of the banks and we have been pushing them because we have had a very good business with all of them and our NPAs virtually have been negligible as far as these banks and NBFCs have been concerned. So that is one part where we work very closely with all the banks and NBFCs. The second is that some of these schemes, like the ballooning scheme as you mentioned is very apt in the current context, where we have seen that people have cash flow problems now. And it will be much easier as things improve that they will be able to pay their EMI at a later date. So they are very comfortable with these kinds of schemes, and that that also helps us promote our business much more by promoting these kinds of schemes. There have been a few schemes where we have virtually taken a very small share of risk, but that is almost negligible, where we said that a very small portion of risk that we will take, but I think that is also mitigated with these schemes that we run on the sales promotion side. So, in fact, if you ask me there is no impact in terms of any subvention being given to the banks or the NBFCs. And these schemes are more to promote our business in a much bigger way moving forward.

Satyam Thakur: Sir, any rough sense you can share how much of your finance sales is happening on these new schemes that you launched at the beginning of this fiscal?

Shashank Srivastava: Actually no, because we have schemes of different regions for different models for different type of customers. All we know is that these schemes have added a good 5% or 6% to our total volumes as far as finance is concerned. Also, I must tell you the schemes is not just about a step up or a balloon type of scheme. It is also about for example, doing the financing of on-road price rather than the ex-showroom price as earlier many banks were doing. So that was the feedback we got from consumers. And we are very happy that after our discussions with the bank and with our CFO, we have been able to get some really good schemes going with the bank and we are looking forward to getting more volumes from these schemes.

Satyam Thakur: And second question was on the leasing plans that you have announced for cars in many of the bigger metros now. So what kind of update we are taking for that like in these cities in which you have these monthly payment plans on which people can get these cars on lease, there, how much of our sales now is happening under this kind of a plan a ballpark if you could share something on that? And again, lastly, how is the accounting treatment of this, just to confirm that, so for you it remains an outright sale and the leasing partner again, bears all the risk, is that a safe assumption?

Shashank Srivastava: Yes, that is true. This is basically subscription scheme that you are referring to. As you know, subscription schemes have two types. One is the white plate type and another is a black plate type. So when we launched this scheme, we did it as a pilot in two cities; Bangalore and Gurgaon, and then we did which was a white plate, and black plate we launched in Hyderabad and Pune. Now we are just about to go across the other cities. I think at the moment, it is just a couple of cities where we have actually launched the scheme for a very short time so far. It is in a pilot stage actually and now we will be expanding to the other regions. In the next step we will be doing it in 20 other cities going forward. The response has been pretty good; we have had a huge number of enquiries, I think today morning, I was looking at the figure of about 1,000 plus and we are in the process of conversion because it takes a little bit of time to do the documentation and then convert it to sales. And you are right, the sale will be directly to the leasing company, and that risk is not borne by us.

Satyam Thakur: So on the future products on the electrification side hybrid and EVs, there, will the arrangement remain the same that Suzuki basically gets the technology from Toyota and then you get the platform or the models directly from Suzuki and you just pay the royalty and therefore, it will remain the same kind of a royalty deal that we have in Suzuki right now, even these future models will come on the same royalty formula or will these need a new separate royalty agreement with Suzuki for instance?

Rahul Bharti: We have an overall understanding on royalty and within that whatever new agreements will be signed, will be within the overall new understanding for new models. That is one. Second is there are EVs and hybrids and strong hybrids and plug-in hybrids, which in itself is a very dynamic field, where technology, viability, customer segment, taxation and government policy, almost the whole context keeps changing all the time. So we are studying the context very carefully. And we want to launch products whenever we do that, the product should be successful and should get good volumes and customer pull. So there will be several combinations; it could be from Suzuki as you said something from outside technology also. So, as and when the situation evolves and we are closer to launching a model, we will inform.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question for today. On behalf of Maruti Suzuki India Limited, that concludes this conference. Thank you all for joining. You may now disconnect your lines.