



Way of Life!

“Maruti Suzuki Q1’FY14 Earnings Conference Call”

July 25, 2013



Way of Life!



MANAGEMENT: **MR. AJAY SETH – CFO**
MR. PRADEEP GARG – VICE PRESIDENT, FINANCE.
MR. RAHUL BHARTI – GM, CORPORATE AFFAIRS.
MR. NIKHIL VYAS – SR. MGR, CORPORATE PLANNING

MODERATOR: **MR. SHIRISH RANE – SR. ANALYST, IDFC SECURITIES**

Moderator Ladies and gentlemen, good day and welcome to the Maruti Suzuki Q1 FY14 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participants' 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 '*' and 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. Shirish Rane from IDFC Securities. Thank you. And over to you Mr. Rane.

Shirish Rane Thanks a lot, Inba. Good afternoon, everyone. On behalf of IDFC Securities, I welcome you all to the post results conference call of Maruti Suzuki India Limited. I also take this opportunity to welcome the management team from Maruti Suzuki today. I would now like to invite Mr. Nikhil Vyas who will take it from here. Over to you, Nikhil.

Nikhil Vyas Thank you, Shirish. Good afternoon, ladies and gentlemen. May I introduce you to the management team from Maruti Suzuki today, we have with us our CFO – Mr. Ajay Seth; Vice President – Mr. Pradeep Garg and the team members from the finance. From the corporate, we have General Manager, Corporate and Government Affairs, Mr. Rahul Bharti. The conference call will begin a brief statement of the performance and the outlook of our business by Mr. Seth. Afterwards we will be happy to receive your questions.

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

Ajay Seth Thank you, Nikhil. Good afternoon, ladies and gentlemen, welcome once again. The first quarter posed multiple challenges for the passenger vehicle industry. With reasonably good sales in the previous Q4; it appeared that the momentum might continue in Q1 this year. There were also some positive expectations of reduction in petrol prices, some festivals and hope of interest rate cuts. However, the actual situation turned out to be quite different. Petrol Car had been declining steeply for about 2 years. Now with the customer knowledge that diesel prices will be increased gradually, and made market linked and therefore closer to petrol prices, even Diesel car sales have started declining.

Diesel segment to an extent had supported the market earlier and prevented an industry degrowth in the last 2 years. In Q1 this year, demand in this segment also started declining and the slowdown spread all across. There was no reduction in interest rates and the festivals did not help much in creating excitement in the market. Consumer sentiment which plays a significant role in influencing decision to buy car weakened further during this quarter.

Passenger car sales continued to decline and posted a degrowth of 10% in first quarter, while the growth in the Utility Vehicles segment came down to 5% from 36.4% in Q4 last year.

Overall, the industry declined by 7.2% as compared to the same period last year. The company's decline in sale was in line with that of the industry, with market share constant at 40.3%.

A weak market demand scenario had to be supported with higher sales promotion expenses to partially offset customers' increase in the cost of ownership. The company organized a number of sales events in urban and rural areas in an effort to reach out to potential customers and create an excitement in the market. Rural sales continue to do well and posted a growth of 19%. A normal monsoon this year should have a positive impact on the crops helping rural sales going forward.

Export sales were impacted during the quarter due to weak market situation globally. The company is working on expanding its presence by launching more models in the export markets. Rupee depreciation helped export realizations, but the benefit was limited due to fall in volumes.

During the year, various cost reduction initiatives like focused cost down, localization and value engineering helped the company improve its operational performance. These initiatives and localization efforts will further continue into the year. Yen rates improved as compared to the same period last year; the movement positively impacted the cost structure and brought down the cost of imports and payables in yen.

Q1 also includes the benefit of the merger of Suzuki Powertrain India Limited, a supplier of diesel engines and transmissions to the company. For the quarter, net sales stood at 99,951 million, a decline of 10% as compared to same period last year, and profits after tax stood at Rs. 6,316 million, a growth of 49% over the same period last year.

We can now take your questions, observations or feedback that you may have. Thank you.

Moderator

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

Kapil Singh

I had a couple of questions, firstly on the volume outlook, in the past discussed around 0 to 5% growth for the industry and for Maruti as well. Does that remain intact, what are your thoughts on that and how are the inventory levels placed for the company?

Rahul Bharti

We are still trying to get more visibility on the market and the macroeconomic environment. As of now, our outlook stays the same, 0 to 5% growth and inventory levels are manageable, but we also have to keep in mind that there is a festive season ahead of us, so some inventory buildup is required.

Kapil Singh

Secondly, on the cost side, what was the JPY to INR realization or JPY realization for the company?

- Ajay Seth** Average Yen-Rupee realization was at 0.60 for the quarter.
- Kapil Singh** Is it likely to remain the same because it is around those levels or you have hedges which can impact this?
- Ajay Seth** It will depend largely on where the rupee moves, but hedges as of now are closer to the market rates. So if rupee stays where it is then it will be either at the same level or better, but if rupee depreciates then there could be a change.
- Kapil Singh** What are the hedges that we have now? How much percentage is hedged?
- Ajay Seth** We are about 52% hedged, both direct and indirect put together for the balance exposure for the year. What is not hedged is basically the vendor side of the exposure, which is almost about 30%. On the direct side, we are almost 80% hedged.
- Kapil Singh** And this is USD/JPY?
- Ajay Seth** That is right.
- Kapil Singh** Could you also share what was the royalty expense as a percentage of sales?
- Ajay Seth** This quarter we were at 6.1%.
- Kapil Singh** What was the average discount for the quarter?
- Ajay Seth** 13,500 was this quarter's average discount.
- Moderator** Our next question is from Mahantesh Sabarad of Fortune Equity. Please go ahead.
- Mahantesh Sabarad** You have not restated your last year's Q1 results with the SPIL numbers there. I understand the merger happened later, but then assuming the merger would have happened, what would have the last year's Q1 numbers be in terms of EBITDA margins and PAT?
- Ajay Seth** I can broadly give you what is the impact of the current quarter on account of the SPIL merger, so you can derive it from there. Broadly, the material cost has come down by 3.5% because of the merger. The expenses under various heads have gone up by 3.1%. These expenses have been clubbed under the heads of manufacturing and administration expenses, employee costs and depreciation. So therefore the conversion cost has gone to respective heads and the material cost has come down by 3.5%. Profits per se have gone up by 0.3% on account of the merger.
- Mahantesh Sabarad** Two, again on your engines, are you procuring engines from the Fiat venture here in India, and how much is your purchase for the quarter?

- Rahul Bharti** Yes, we are procuring. There is always a mix. We do not give exact numbers.
- Mahantesh Sabarad** But then roughly to get an idea of all the volumes that you do, diesel volumes that you do, at least a broad range would help us?
- Rahul Bharti** About 34% of our total volumes in domestic market are diesel currently and this we are procuring from our in-house diesel plant and Fiat.
- Mahantesh Sabarad** Is there a substantial difference in terms of landed cost for you between the in-house made engine versus that procured from Fiat?
- Rahul Bharti** Not significant.
- Mahantesh Sabarad** I know you would resist in giving your margin outlook, but since you have returned back to a double digit margin this quarter, how would you like to see the margins ahead if not for this year at least for the next 2, 3 years kind of target?
- Ajay Seth** I think there are a variety of factors that we have to see. One is of course how the volume picks up. The economies of scale will only come when you have sizable volumes. Our third plant in Manesar is going to be ready in September, so there will be incremental fixed costs that will come on that account. So, volumes will be very critical. Exchange rate especially dollar-rupee will be very critical to watch and exchange rate can have a significant play on margins as you are seeing now. Third, of course, would be the mix that we said at a given point in time. Our efforts on cost reduction as we have demonstrated in this quarter will continue. We will try to increase our efforts on localization, on value engineering, and value analysis, etc. So while we will continue to work on that, but I think there are so many variables today. For us to give guidance on margins would be very, very difficult.
- Moderator** Our next question is from Yashesh Mukhi of Morgan Stanley. Please go ahead.
- Binay Singh** This is Binay Singh from Morgan Stanley. From the earlier question, could you quantify a bit about the known cost pressure that you have like third plant coming at Manesar. What kind of an impact will that have?
- Ajay Seth** The impact on the third plant would be in terms of whatever the fixed cost is, the plant will be commissioned and in particular capital cost, and you will have to charge depreciation of that plant from day 1. There will obviously be some fixed costs that you will incur on that account. So if volumes pick up, then we will be able to utilize our capacities in a much better way and therefore the marginal cost you can earn much better revenues. But if the market remains where it is now, then of course there will be a capacity overhang.
- Binay Singh** Looking at capacity now, we are also looking for another facility. Is there an option to delay all the capacity expansion given the fact that the slowdown could be prolonged? And secondly

can we also cancel the order that we have from Fiat, is it up to us, how much we want to pick up or it is a binding contract for 3 years?

Ajay Seth

The capacity we have already committed, so in September this plant is going to come up. We are already in July end and from September the plant will be up and running. So therefore it is not practical now to go back on your commitments on the capacity side. On the Fiat arrangement, obviously, there will be some flexibility, but there is also some underlying obligations that we carry. So, we will have to fulfill that.

Binay Singh

Actually in terms of plant I meant more the Gujarat facility, I know that there is a lot of talk on that. What is happening in the Gujarat facility given the slowdown and you have excess capacity, so are you still going on with that CAPEX?

Rahul Bharti

We still have the Manesar plant 3 in terms of capacity available with us. So that gives us some time to decide.

Binay Singh

Could you also throw a little bit of light on exports we have seen quite a sharp slowdown. Will there be a rebound in exports in the coming months?

Rahul Bharti

We have two kinds of phenomena in exports. One is there is a strong slowdown in most of the global markets including Europe. Some particular markets in Europe like UK for example are recovering and we are trying to capture the opportunity, and then there were some specific issues regarding some requirements by some countries because of which the volumes in Q1 were low and we hope to recover them in the rest of the year.

Binay Singh

Anything on the new model cycle? It has been almost a year since we had Ertiga. So what is the 1-year model cycle promise that Maruti had, when are we going to see the next model?

Rahul Bharti

So we have promised Indian customer of at least one new model every year as you said, and we will maintain that average at the minimum.

Moderator

Our next question is from Sahil Kedia of Barclays. Please go ahead.

Sahil Kedia

Can you tell us what was the export revenues for the quarter? And also if you could comment about how the footfalls, etc., are shaping up and have we undertaken any inventory correction at the dealer level in Q1?

Ajay Seth

Export realizations for this quarter were at about Rs. 900 crores, of course they were lower than last year same quarter.

Rahul Bharti

On the domestic enquiry, we have enquiries which includes footfalls because some enquiries could be telephonic or web-based also, so enquiries are marginally up with respect to last year. But nothing very strong or significant that makes us feel that an uptick has happened, we are

still watching. We have done some minor inventory correction in the past, but this is again the time to build inventory for the festive season in some anticipation of better sales.

Sahil Kedia Just wanted to check that in Q1 your wholesale number is down quite substantially. So is there some element of inventory correction wherein your retail have been higher, or can you share the retail numbers with us for the quarter?

Rahul Bharti The retail sales have been about 67,000, 80,000, and 90,000 for the 3 months in the quarter.

Moderator Our next question is from Govind Chellappa of Jefferies. Please go ahead.

Govind Chellappa As things stand where do you see bigger issues in terms of dieselization, is it in the petrol segment or is it in the diesel segment, in the next few months, you can obviously see from enquiry, do you see the percentage of dieselization going up or down from where we are right now?

Rahul Bharti As Mr. Seth mentioned in his opening remarks, petrol cars had been declining for almost 2 years now and recently with diesel pricing policy announced by the government, even diesel cars sales have been declining now. The current percentage of industry is about 54% and we believe it could marginally come down to anywhere between 50% to 54%.

Govind Chellappa The shift from diesel to petrol in terms of category, are you seeing it more in Swift or is it in Dzire or is it in Ertiga, if you were to talk across price points?

Rahul Bharti Some models are more petrol, than diesel, for example Ritz petrol seems to have more attraction with the consumers, but the shift from diesel to petrol is almost uniform.

Govind Chellappa Two related questions, one, as a EBIT percentage of sales, would the profitability of petrol and diesel right now for the whole company or on a like-to-like model, would they be comparable, would diesel be higher, would diesel be lower, if you could comment on that including the discounts that you gave on petrol?

Ajay Seth Sorry this question has been often asked and we do not comment on product specific contribution, so I will not be able to give you an answer on whether diesel is more profitable or petrol. The only gap so far used to be that diesel had no discounts, to that extent our margins on diesel used to be better because of diesel having no discounts. But whether diesel is more profitable or not is something we do not share, we look at what is blended margin for us.

Govind Chellappa Are you seeing discounts on diesel go up?

Ajay Seth Yes, definitely, I think diesel discounts have started and they are likely to go up.

Govind Chellappa The new capacity for diesel engine is on track for September?

Rahul Bharti Yes, it is.

Govind Chellappa That is 150,000 units, right?

Ajay Seth Correct.

Govind Chellappa And next June will be another 150,000?

Rahul Bharti Sometime next year.

Govind Chellappa And do you have flexibility on that in terms of delaying the plant or something?

Rahul Bharti Yes, we have.

Moderator Our next question is from Hitesh Goyal of Kotak. Please go ahead.

Hitesh Goyal I missed that figure of discounts on a QoQ basis how much is the increase. And also if you can give us diesel volumes for yourself in this quarter?

Ajay Seth Discounts in this quarter were at 13,500 compared to 11,500 in the first quarter of last year and 10,500 in the fourth quarter of last year.

Rahul Bharti Diesel volume was 84,000 cars.

Moderator We will take our next question from Srinivas Rao of Deutsche Bank. Please go ahead.

Srinivas Rao Would you like to throw some light exactly where the status of the Gujarat plant is right now, any capital have been allocated to that or not allocated?

Ajay Seth The Gujarat plant, we have to take it up to our board for approval of the project. The only thing that we have mentioned earlier is that we have procured land, but other than that, I think we are still in the process of getting all the formal approvals and then once we do that, then we will make formal announcements on that.

Srinivas Rao You mentioned on your hedges, you said your hedged dollar-yen but not rupee-dollar, is that correct?

Ajay Seth Yes, that is right.

Srinivas Rao Your entire rupee-dollar would be open?

Ajay Seth There are two parts to dollar-rupee. We have two types of exposures, one is the direct exposure, which is largely the royalty payments and the direct imports. And second exposure is the indirect exposure. Now, for the direct exposure, we have bulk of our exposure has a natural hedge. So therefore the risk of dollar-rupee is limited. Also as far as the indirect exposure is

concerned, the rates for the second quarter are already fixed because we compensate with a quarter lag. Now, the only risk that we carry is with the vendor exposure for the third and the fourth quarter. So, that is where we are open and largely the risk that we carry is on that.

- Moderator** Our next question is from Chirag Shah of Axis Capital. Please go ahead.
- Chirag Shah** Just to clarify, you highlighted that on these hedges, you were saying that for second quarter rupee exposure even on indirect side is hedged, is it right understanding?
- Ajay Seth** It is fixed. Whether it is hedged or not ...
- Chirag Shah** Yes, it is based on previous quarter average.
- Ajay Seth** Rates are fixed on the basis of first quarter average and therefore we exactly know what we will be ending up at for the second quarter. Only third and fourth quarter would be the quarters at risk at this point in time.
- Chirag Shah** Second question was on other expenditure, it has been on the higher side in the quarter, so it is more to do with marketing spend or it is also that the benefits of hedges are accounted in raw materials and not in royalty, that is why it has gone up. How should one look at other expenditure for the quarter?
- Ajay Seth** First of all, the other expenses is going up because you are not seeing like-to-like results. The current first quarter is with Suzuki Powertrain included. Therefore there will be an impact of the overheads of Suzuki Powertrain which have come in the other expenses, whereas in the first quarter it was Maruti standalone. So that is the major difference which is about 100 basis points is on account of the Suzuki-Maruti merger.
- Chirag Shah** So you are saying that is the normal kind of a level that we can expect for the year, around 12 to 13% could be the range?
- Ajay Seth** Correct.
- Chirag Shah** Another question was what would be the rural portfolio now as a percentage of total for you and how it has been in Q1 especially?
- Rahul Bharti** Rural still is showing a double digit growth and rural is about 29 - 30% of total sales.
- Chirag Shah** And given good set of monsoon, can we expect acceleration happening over there on that side of the portfolio?
- Rahul Bharti** We can expect the growth to continue, acceleration we are not sure.

- Chirag Shah** And again on the hedges, is it possible for you to indicate what would be your average Yen-Dollar rate for the ensuing quarters?
- Ajay Seth** For the subsequent quarters or?
- Chirag Shah** For the subsequent quarters?
- Ajay Seth** On the dollar as I mentioned earlier also, the dollar-yen our hedges are carried and so we will be very close to the current market rates.
- Chirag Shah** What would be for the first quarter 95 odd levels or it would be ...?
- Ajay Seth** First quarter average would be close to about 94.
- Chirag Shah** Second quarter also you would be around 97 or 98 levels or it would be lower than that?
- Ajay Seth** I said we are close to the current quarter rates.
- Chirag Shah** Related to your ASPs, how much is the impact on the ASPs visible due to discounts coming in diesel or that impact is yet to be visible in that sense?
- Ajay Seth** I think diesel discounts only started in June, so there will be some rise and impact now, but will be more visible moving forward.
- Moderator** Our next question is from Pramod Amthe of CIMB. Please go ahead.
- Pramod Amthe** This is with regard to the medium term plans for exports considering the set back seen in the recent months and rupee depreciation. How are you evaluating the export plans for 2-3 years to nullify the imports which you have?
- Rahul Bharti** Exports are high on our agenda, particularly when the domestic market is not growing. And we are targeting to expand our presence in the existing markets with more products, and we will try to increase our numbers, but then we should keep in mind that the global market itself is quite weak at the moment. So we can expect some increase in the coming years.
- Pramod Amthe** Considering the volatility in the finance rate on the bond side, are you on the ground level seeing any restrictions in terms of the vehicle finance availability or the rates per se in the retail market?
- Rahul Bharti** In some customer profiles the banks are getting stringent on their credit criteria, but by and large things have not changed much so far.
- Moderator** Our next question is from Sonal Gupta of UBS Securities. Please go ahead.

- Sonal Gupta** Just wanted to know what exactly is now your import exposure, direct and indirect and how much is US dollar-denominated?
- Ajay Seth** We have exposure of about 46 billion odd Yen which is the current exposure which is unhedged, and we have about 50 billion exposure which is either hedged or where the rates have been fixed. So our exposure for the remaining three quarters is about 96 odd billion yen, of which 50 billion yen is either hedged or the rates have been fixed and 46 billion yen where we are unhedged.
- Sonal Gupta** What I meant was as a percentage of sales, what percentage is...
- Ajay Seth** We were at about 19.5% import content at the end of March and at the moment, reduction would not be very significant, I think it will only be seen during the year. So as we go along you will see the reduction by the end of current year. Our target was to reduce to bring it down by another 2% to 3% this year. So I think by the end of the year, we will give you more concrete numbers on where the localization stands.
- Sonal Gupta** Royalty would be over and above this?
- Ajay Seth** That is right.
- Sonal Gupta** The other thing was now post SPIL how do you see your CAPEX going forward?
- Ajay Seth** CAPEX for the year, we will continue to review in the light of where the volumes, etc. pan out and how the market pans out. So we initially had a plan of CAPEX of Rs. 4000 crores, but we will keep revisiting it based on what the real requirement is.
- Sonal Gupta** This is including SPIL and everything?
- Ajay Seth** Right.
- Sonal Gupta** Finally on the demand side, my understanding I think Mr. Bhargava on TV said that the retail was actually positive for the first quarter while you reported a wholesale decline of 7%. Do you see further incremental deterioration or do you think that retail is at least flattening out and you do not expect further deterioration?
- Rahul Bharti** What Mr. Bhargava referred was in the months of April, May and June, the retail sales were 67,000, 80,000, 90,000. In the coming festive months, we might see some kind of better pull, so we are slightly more optimistic on retail numbers than what the wholesale figures suggest.
- Sonal Gupta** The retail is not up on a year-on-year basis, is it?
- Rahul Bharti** Almost flat.

- Sonal Gupta** So do you still see incremental pressure for deterioration that is why discounts are going up, is that the way you would see that?
- Rahul Bharti** Discounts are going up because one major segment which is diesel is also now declining and the earlier gap which used to be maintained between petrol and diesel is no longer there. So diesel has also come under discounts, there is an overall slowdown also, that is the other reason for discounts.
- Moderator** Our next question is from Ambrish Mishra of JM Financial. Please go ahead.
- Ambrish Mishra** There are two questions; one, you already have spoken and shared some thoughts on our Compact SUV, which was showcased in “2012 Auto Expo.” Given the kind of response we have seen for EcoSport, and the kind of waiting period, are there any plans to maybe prepone the launch of our product or is still on track for sometime in 2014?
- Rahul Bharti** We are evaluating the product plan, and generally for any product plan, it is not easy to prepone the plan, it goes through a lot of engineering, testing etc., So as of now no comments, let us wait and watch.
- Ambrish Mishra** The second was on the discounting we spoke about that the diesel discounting actually accelerated in June, though it is too early to ask, but given that we are already one month into the second quarter, how significant has been a increase in July compared to let us say June or is it same?
- Ajay Seth** I think the increase is significant. This could also spill over in the next quarter. Therefore discounts numbers that I talked about in this quarter which is an average of 3 months may actually go up as you will see the full impact of diesel from July to September. So we should be prepared for significant hike in discounts compared to this quarter.
- Ambrish Mishra** The tax rate for this quarter has been higher than what for the full year we have been looking at, let us say against 23, we have seen on the higher side of 25%. So for the full year still do we stay with the tax rate of 23, 25%?
- Management** No, it will be in this region only, roughly about 24, 25%.
- Moderator** Our next question is from Basudeb Banerjee of Quant Capital. Please go ahead.
- Basudeb Banerjee** In past one month with petrol retail prices inching up significantly and diesel seeing barely a 0.50 paise hike, so the gap has again expanded. Do you see that logically anyhow push diesel demand back again down the line or do you see this diesel demand slump continuing further again?
- Rahul Bharti** Currently, diesel percentage in industry is about 54%. We expect this to move down slightly to maybe anywhere between 50 to 54%, something like this.

- Basudeb Banerjee** So broadly one can say that rising blended discounts through diesel models along with the fixed costs from Manesar plant coming from second half can impact the margins?
- Ajay Seth** Discounts of course will affect the margins. Overall, the material cost is coming down and the fixed cost is going up. But net-net we are still (+0.4%) on our profits before tax.
- Basudeb Banerjee** Can you quantify what can be the potential depreciation post the third plant at Manesar comes on stream?
- Ajay Seth** We will get back to you on that, we do not have the data immediately with us.
- Moderator** Our next question is from Akshay Saxena of Credit Suisse. Please go ahead.
- Jatin** The question is that we have seen on a quarter-on-quarter basis discounts go up, the mix move towards petrol and given the wide gap between petrol and diesel vehicle prices, despite that realizations have held up pretty well. So what has helped that?
- Ajay Seth** I think the mix has changed a little bit, but not too much that is one. Second is export realizations are much better compared to last year. And third is that if you remember we have had price increases during last year. So if you take all that into account the realization more or less has improved. But again if you compare from Q4 to Q1 this year, the realizations would have fallen. So actually the impact now is clearly reflected in the realizations, as you see Q4 to Q1 it is dropping, but Q1 last year to Q1 of course given the mix change, etc., it is still the same and we had price increases, we had much better export realization from that period till now. So therefore you will see the realizations from that period to this period is better.
- Moderator** Our next question is from Vaishali Jajoo of Aegon Religare Life Insurance. Please go ahead.
- Vaishali Jajoo** Just one clarification on your royalty number, you have told it is 6.1 for the current quarter?
- Ajay Seth** That is right.
- Vaishali Jajoo** There is no positivity coming from the yen movement in royalty because as a percentage terms it is slightly more than what we have seen in last few quarters?
- Ajay Seth** We have 6.9% royalty to net sales last year same period and now it has come down to 6.1%. But if you were to look at Q4 numbers, they are a bit distorted. The reason there was that in that quarter we had restatement impact. It was royalty for 6 months and the third quarter royalty was also reinstated in the fourth quarter as the March end rates were very favorable. There was yen-rupee parity was at 0.57, and therefore suddenly the impact of two quarters came in, and the rates also lowered significantly. We have reinstated royalty now at the rate of close to 0.60. So one is that the rate has deteriorated from March to now by about 0.03 yen, and second is that in March there were one quarter additional impact of reinstatement that came in. So therefore it is not a like-to-like comparison. If I take away the reinstatement

impact that the Q4 royalty rate would be at about 5.6% instead of 5.2% and the balance is explained by the difference in the exchange rate as of March and as of June.

- Vaishali Jajoo** What was the net impact of the yen in the current quarter including royalty, other expenditure, raw material, margin and everything?
- Ajay Seth** If you were to compare Q1 of last year versus now, there was a favorable movement of Rs. 65 crores taking all foreign exchange into account.
- Vaishali Jajoo** Another one is on the sales, we have spoken more on the rural part of the sales volume, how is the trend looking in the top 10 tier-I cities basically that is I think where the volume is getting impacted. So if you could give some outlook on the urban sales part of your volumes?
- Rahul Bharti** Most of the cities are now declining at an equal rate, so the slowdown has affected the whole of India almost uniformly.
- Vaishali Jajoo** But then rural is still growing in double-digit as you said, is there a negative growth in the urban area?
- Rahul Bharti** Certainly yes, because Q1 the whole industry pan India declined by 7%, so obviously there is a decline in most of the cities and towns. In rural and those sections of the customers who are connected with the agriculture or the rural economy where we can still see some growth.
- Vaishali Jajoo** Is it a double-digit decline in the urban areas to offset that?
- Rahul Bharti** No, there is a 7% decline all over India and within rural for Maruti there is a double-digit increase.
- Vaishali Jajoo** That is fine. I am looking for the number in the urban market how much it has declined?
- Rahul Bharti** High single digit.
- Moderator** Our next question is from Aniket Mhatre of Standard Chartered Securities. Please go ahead.
- Aniket Mhatre** I missed the diesel vehicle sales that you mentioned, can you please repeat that?
- Rahul Bharti** Q1 84,000 approximately.
- Aniket Mhatre** Would you like to give us any guidance in terms of export volumes?
- Rahul Bharti** Flattish this year over the previous financial year.
- Aniket Mhatre** And when you say 0 to 5% growth, you mean the domestic market, right?
- Rahul Bharti** We mean the domestic market.

- Moderator** Our next question is from Paresh Jain of IIFL. Please go ahead.
- Paresh Jain** Just wanted to check on the diesel engine sales, the run rate that we are running at around 84,000 a quarter and possibly if we analyze we will end up somewhere between 325 - 330 and our engine capacity by the end of September would be far more than that, and with the Fiat deal also we will have much more diesel engine supply. So what do we have plans with regards to the Indian sales or do we have an arrangement with Suzuki where the Suzuki will be picking up the engines from us or will be the fact that our utilization levels remain at low levels for the new plant?
- Ajay Seth** I think first of all we have to see how the markets pans out. So it is too early to say what will be the run rate for the quarter. There is a decline now more driven by market sentiments. Also we cannot deny the fact that diesel-petrol price correction has to some extent impacted. But let us stabilize our number on diesel first, then see where the requirement it is. We have a capacity of 300,000 diesel engines in Suzuki Powertrain. We have set up a capacity of 150,000 now which means effectively we will only be able to utilize half the capacity this year, and we also have some flexibility from Fiat in terms of picking up lesser numbers than what we usually pick up. So I think we will use combination of the flexibility to see what is required. And obviously the second diesel plant is to come much later so we will also see what is required to reaching our plans, whether we should do it on time or a little later, etc. So I think we are working on all that and we will make sure that we make effective utilization of whatever existing facilities we have.
- Moderator** Ladies and gentlemen, due to time constraints that was our last question. I would now like to hand the floor back to Mr. Shirish Rane for closing comments. Over to you, Mr. Rane.
- Shirish Rane** Thank you Inba.
- Nikhil Vyas** Yes, thanks.
- Shirish Rane** Thank you everybody for participating in the conference call and a special thank you for Maruti Suzuki's management for allowing us to host the call, thank you once again.
- Moderator** Ladies and gentlemen, on behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.