Financial Results 2Q FY2019
Questions and answers in the briefing session for analysts

5 November 2019
SUZUKI MOTOR CORPORATION

(Final vehicle inspection issue)

Q1: The decline in domestic sales in October was less than that of other companies. What is the situation for normalizing production?

A. When we asked the dealers, they said, “While there was no rush before the consumption tax hike, it was a rush if we looked at it later.” Fortunately, in the case of our company, larger backlog compared to others helped us maintain the number of sales, but we also hear that the number of dealer visitors from October onwards is decreasing, so we need to keep eyes on the matter.

Furthermore, it is also true that the final vehicle inspection issue is the key to resolution of backlog. Until now, the capacity of final vehicle inspection was lower than the production capacity and resulted in backlog of customer orders, but from around the middle of last month, final vehicle inspection capacity began to exceed the production capacity. Establishing the system that can be reliably maintained by the end of this fiscal year is one of the targets for the normalization of production, and we are proceeding with countermeasures.

Q2: In the first half of the fiscal year, did you make capital expenditures related to final vehicle inspection or record transient costs related to it?

A. Capital expenditure related to final vehicle inspection is being promoted as a priority item in measures to prevent recurrence, and on the premise that there is no restriction on the budget. We are encouraging our factory floor to apply for equipment introduction requests. There are about 200 projects that have already been arranged, ordered, or received, while simultaneously promoting capital expenditures toward enhancing productivity and quality. Although we maintain the current fiscal year's capital investment plan of 270 billion yen, of which the single portion is 60 billion yen, we are urging the production floor to apply for equipment regardless of exceeding this limit.

In addition, it has become apparent that it is necessary to review the design itself to make it easier to perform final vehicle inspection. While listening to the opinions of the related people, we have found that it is necessary not only to complete the inspection process but also to improve the quality in a wider range, so we will newly implement investments taking such opinions into consideration.

(India operations)

Q3: There is an improvement in sales in October, but what is your future outlook including inventory status?

A. Although the market has been sluggish since last year, sales increased slightly in October due to the overlap with the festive demand and the return of corporate tax cuts introduced the other day. However, in the future, it is necessary to pay attention to the policy trend and the sales trend of each company toward BS6 (stricter exhaust emissions regulations) from next April, especially the movement of over-selling due to the clearance of existing stock vehicles. In the case of our company, lineup of BS6 compatible vehicles are planned to be ready by the end of this year, instead of fiscal year, and we will respond closely while monitoring the trends of other companies.

Although there are some areas where it is difficult to judge short-term prospects, we will continue to implement measures to increase the number of units, such as accelerating sales network development, in order to maintain the top share also in the future. We will make steady progress on these initiatives.

The total stock including dealer stock at the end of September is slightly increasing, but we will continue to control by watching the year-end model change and the movement of BS4 stock vehicles.

Q4: Is there any improvement in the sales finance situation in India? Also, do you have any plans to introduce captive finance or in-house sales finance company in India?

A. We are asking 10 banks among current financial institutions to set up loans with no down payment or reduced down payment. Meanwhile, in the rural areas, we are promoting partnerships with regional banks and finance companies that have strong local network, and also promoting initiatives that lead to sales promotion, including contacts to customers of such financial institutions.

For the moment we place priority on asking for cooperation from an external financial institution, rather than in-house sales finance company.

Q5: How do you see the cost impact of BS6 (stricter exhaust emissions regulations) from the next fiscal year onwards?

A. Most models will be BS6 compliant by the end of the year as explained before. This is the result of promoting technological development to comply with regulations set forth by the government in advance. The problem is cost increase due to that, but apart from its quantitative evaluation, we will take them into account in sales and technical appeal, and in carefully monitoring the competitive environment, we intend to keep them to a minimum level in any case.

Q6: Is there any change in the start-of-production plan of Gujarat C (third) plant? There is no doubt about the need for capacity enhancement in the medium to long term, but from the forecast revision, what are the lessons learned toward the long-term vision and the impact on the alliance with Toyota?

A. We are examining to postpone the start of operation for 3 months, from April next year to July next year. This is partly due to the current market situation, but it is also due to the decision to delay the dispatch of personnel from Japan, prioritizing the establishment of a domestic final vehicle inspection system by the end of this fiscal year. However, if demand in India grows, we can plan to bring it to full operation as soon as possible from the start-up in July. On the other hand, if there is surplus capacity, we can shift production from old and inefficient factory operations such as the plant in Gurgaon to the state-of-the-art C plant.

Also, for the Indian market, we originally didn't think it would go straight up, and thought it would eventually go to “10 million units in 2030” through ups and downs. So this should be the case. If the market reaches 10 million units, Maruti Suzuki will also establish the capacity of 5 million units, and it will be necessary to re-examine the existing sales network while considering CASE. We will definitely establish a “5 million capacity in 2030” that is not affected by economic trends.

This is the same way of thinking about the alliance with Toyota. Regardless of the short-term economy, we will continue to think carefully toward electrification and automatic driving for the medium- to long-term future.

Q7: There are talks about Indian dealers suffering a lot from the sluggish economy. What actually is the situation?

A. We haven't heard of Maruti Suzuki's sales network becoming exhausted. Besides strengthening the existing sales and service networks, Maruti Suzuki will support the development of dealer bases that need to be expanded, especially in rural areas.

(European Business)

Q8: What is the possibility of penalty payment due to stricter European CO2 regulations from 2021?

A. We are currently accelerating development to comply with stricter European CO2 regulations. We can't say anything at the moment about whether or not there is a penalty payment, but as a basic attitude, we are trying everything to meet CO2 regulations, such as reducing weight, improving engine thermal efficiency, strong HV technology, and developing new powertrains.

(Miscellaneous)

Q9: What are the reasons for the decrease in profit-decreasing factors of various expenses in 2Q (July to September)?
What is the relevance to the Japan segment, where profits increased in 2Q (July to September)?

A. In the first half of the year, of the factors of operating income increase/decrease, various expenses were factors of decrease, which increased by -14.8 billion yen, but when broken down into 1Q and 2Q, 2Q was +57 billion yen compared to -20.5 billion yen in 1Q. Furthermore, the quality-related costs account for -10.8 billion yen in the first quarter, while the second quarter is -3 billion yen. As the full-year forecast shows an increase in various expenses of 0, we do not expect a major burden including quality-related costs.
In addition, in 2Q, as the operating policy expenses were narrowed down compared to 1Q and the impact of recombination of shipping costs at Maruti Suzuki as previously explained was completed in 2Q, it turned into a contribution to the profit increase side.
Sales and profits for 2Q (July-September) in the Japan segment increased. The number of sales continue to show decline due to production effects from the final vehicle inspection issue, but higher-priced products such as "Spacia" and "Jimny" increased, and measures such as reducing the number of demo car leases contributed, as those sales are not counted as external sales.

Q 10: Operating profit per quarter is 60 billion yen, so if it is quadrupled, it will be 240 billion yen for the full year. What are the reasons behind full year forecast of 200 billion yen?

A. We set the full-year forecast as slightly conservative figures and you may understand them as our “minimum target” based on our internal planned values.

Q 11: What are your thoughts on performance for the next fiscal year based on the normalization of domestic vehicle final inspection issues and the recovery trend in the Indian market?

A. For the next fiscal year, we cannot find a globally bright future now, and we need to proceed with careful attention. Under such circumstances, we decided to delay the start-of-production at Gujarat C plant by 3 months, but on the other hand, in order to build capacity of 5 million units, we have to carefully decide a location for the factory expansion and what kind of factory to make, together with strengthening the sales network. In that sense, the next term will be a preparation period for such mid- to long-term perspective.
What we should do is that our technology, sales, and production departments should decide what to do for 2030.
In view of the current economic circumstances, we need to change our mind to struggle with upcoming difficulties.

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