Financial results Q3 FY2021
Questions and answers in the briefing session for analysts

February 4, 2022
Suzuki Motor Corporation

(Impact of parts shortages including semiconductors)

Q1: What was the impact of parts shortages including semiconductors, in the Q3 (Oct-Dec) period? India in particular seems to be recovering. What is the difference between India and Japan?

A. In Q3 alone, domestic sales decreased by 51,000 units, overseas sales decreased by 57,000 units, consisting of 41,000 units in India and 16,000 units in Hungary. In India and Japan, there was first a temporal difference in occurrence. When the influence began to appear in Japan around May, it was OK in India, but after August, the influence caused by Malaysia also appeared in India.

The difference between India and Japan appeared in the course of shifitng production of models that are affected by semiconductors to those unaffected, whereas Maruti Suzuki export models were rather unaffected and able to cover up the decrease. On the other hand, many Japanese models equipped with advanced control functions using semiconductors could not be covered.

Q2: Subtracted from the full year, Q4 (Jan-Mar) shows a slight increase in production and flat sales, while net sales fell about 8% and it seems conservative. Is there any specific factor that are expeted to affect net sales and sales volume in the coming quarter?

A. Currently, the stock level is very low worldwide, so from now on, it will be "production = sales". We changed sales volume assumption and increase of 44 billion yen resulting from change in model mix was reflected, while the rise in raw materials and the increase in miscellaneous expenses offset this. Therefore, we do not consider a particularly conservative view. Of course, if production recovers smoothly as the situation of semiconductors and other components improves, net sales and profit will naturally increase accordingly.

(Electrification)

Q3: You lowered the forecast for R&D expenses for the full year. Will there be any delay in the schedule such as launch of Mini EVs by 2025? Or will the introduction of Mini EVs be accelerated in anticipation of increase of subsidies by the government on Mini EVs?

A. The lowering of the forecast is due to special factors such as the delay in the delivery date of development contractors due to COVID-19 and the inability to procure semiconductors for use at the development stage, and there is a possibility that some projects may be delayed to the next fiscal year. However, the director in charge is firmly in control of this, and this fiscal year is the first year in which the mid-term plan calls for the intensive development of electrification technology, so projects that should be developed are being steadily developed. In this sense, it is not that there has been a delay in the development schedule from a medium-term perspective, but rather that we recognize that the pace of development will have to accelerate.

(India business)

Q4: Maruti Suzuki also said it would recover its 50% share, but is there any change in the sense of schedule for new car launches in the country? What is your strategy for recovering demand?

A. While Maruti Suzuki had 48.3% of the overall passenger car market in December, but less than 15% of the SUV market, so we recognize that our SUV lineup is weak. Currently, the company is working hard on concrete projects to strengthen its SUV lineup, and aim to launch them as soon as possible.

On the other hand, the Indian market is characterized by the trend of compressed natural gas (CNG) vehicles, so we will not forget to tackle this issue. The Indian government is focusing on the expansion of CNG stations to promote carbon neutrality. Since it emits less CO2 than Gasoline, the company places efforts to penetrate CNG along with hybrids, which our company has long recommended. Maruti Suzuki has already introduced CNG variants for eight models including commercial vehicles, and CNG variants account for about 30% among these models. So we believe that CNG models are gradually getting attention from customers. In the long run, time of EVs may come, but until then, we will concentrate on CNGs and hybrids. Of course, SUVs will be introduced as soon as possible. These are our thoughts on product lineup.

Q5: What is the trend of CNG vehicles in the Indian market and how competitive Is Maruti Suzuki? What is the difference in profitability between CNG and gasoline models?

A. In FY2020, total sales of CNG vehicles in the passenger car market in India were about 175,000, of which 148,000 vehicles consisting of 7 models were sold by Maruti Suzuki, roughly 85% share. Competitor is Hyundai selling 27,000 units with 4 models, having 16% market share. However, in response to recent trends, Tata has set CNG variations in several models and started selling them in January, so we expect competition to grow in the coming years. We will continue to expand our lineup and make efforts to keep up with this trend. In addition, we have advantage of leading the market from early stages, so we will also place efforts to ensure profitability.

The characteristics of CNG are that if coal is 100, CO2 emissions are 57, SOx (sulfur oxides) is 0, and NOx (nitrogen oxides) is 20 ~ 40. Therefore, CNG is effective in view of reducing CO2, and we believe that the time has come to focus on its penetration.

On the other hand, in June last year, the Indian government announced the nationwide rollout of E20 fuel (blend of 20% ethanol in gasoline) from April 2023. We need to meet that regulation as well. India is also beginning to move toward carbon neutrality, and we believe that we should not only to follow the regulations but to pre-empt them in our lineup.

(Miscellaneous)

Q6: What is the actual value of operating income excluding special factors in Q3? Are there any extraordinary factors? Also, what is the reason that operating profit in Q4 (Jan-Mar) after subtracting 9 months from the full-year forecast will decrease to slightly above 20 billion yen? Is it possible to achieve the level of 300 billion yen per year at the time of normalization?

A. As for transient quality-related expenses, 1Q was minus 8.2 billion yen, 2Q was plus 9.8 billion yen as the amount of claim to suppliers was determined, and Q3 was minus 8.7 billion yen, for a cumulative total of minus 7.1 billion yen. The ratio against sales in the 1Q was -1.4%, that in the 2Q was +1.0%, that in the Q3 was -1.5%, and that in the nine months to date was –0.6%. In 2Q, the sign was reversed, but in Q3 a new quality issue was recorded. However, for the full year, we expect that the total amount will decrease due to the ongoing efforts of quality measures set forth in the medium-term plan, namely, early detection of defects, prevention of leakage, and prevention of occurrence.

Factors of change in the Q3 (Oct-Dec) were production cuts due to shortage of parts including semiconductors, negative effects due to rising raw material prices, and the aforementioned increase in quality-related costs.

As for the outlook for the Q4 (Jan-Mar), although sales are expected to increase in line with the revision of the sales volume, uncertainty remains on the profit front. In addition to increased shipping costs due to increased sales, quality-related costs have also been increased. We expect various expenses to increase around that point.

As for the impact of raw materials, we revised our forecast for the full year to minus 110 billion yen. We had previously forecasted a minus 85 billion yen for the full year, but the cumulative amount for the third quarter reached minus 89 billion yen. In Q4, which is calculated by subtracting Q3 results from the full-year forecast, the increase will fall slightly to minus 21 billion yen, but while precious metals such as rhodium and palladium returned to December 2020 levels, steel and aluminum prices continue to rise. In India, where the impact is even greater, as prices of resins have risen sharply as well, overall prices remain high. Operating income is expected to remain the same due to higher net sales resulting from the revision of the number of sales units, in contrast to lower profits due to higher raw material prices and higher various expenses.

The outlook for the next fiscal year is still being prepared, but raw material prices must be viewed negatively as a cause for concern. However, we are not neglecting our efforts, and as a manufacturer of smaller cars, we will consider ways to reduce the amount of materials used and explore use of alternative materials in the engineering phase.

It is also true that the impact of the semiconductor shortage are gradually improving. At the end of 2Q, both domestic and overseas operations were expected to remain at 70% of the initial plan. However, the results showed progress to more than 80%, confirming improvement. Although we are making efforts to secure inventories and devise orders through close contact with our business partners, we still do not feel confidence of exiting the impact within this fiscal year. Of course, we will try to minimize the impact.

Q7: How did the change in the sales mix in Q3 (Oct-Dec) contribute to an increase of +23.4 billion yen despite the decline in unit sales? Will the trend continue after Q4?

A. Despite a decline in unit sales, the change in the sales mix in Q3 (Oct-Dec) resulted in increse of profit by 23.4 billion yen, mainly due to multiple price hikes in the Indian market, increased distribution of production capacity to exports with high relative unit prices, an increase in demand in line with the Indonesian luxury tax exemption measure, and an increase in royalty income at Suzuki on a non-consolidated basis compared to the previous year.

As for the continuity, Maruti Suzuki, which has the most impact, still has many backlog, and in addition to raising the price three times already last year, it raised the price again this January, and so on, so we think there is continuity. Of course, it depends on the number of units, but as mentioned above, we will shift to export models that are less affected by semiconductors.

Q8: Impact of rising raw materials prices for the full year is estimated at 110 billion yen, what is the regionwise split? On the other hand, there are some regions where the effect of a decrease in profits can be offset by the effect of price increases. What is the situation in each region?

A. The rough breakdown of the impact of the sharp rise in raw materials prices, the cumulative 89 billion yen from April to December, is 1/4 for Japan and 2/3 for India, which has a large impact.

Maruti Suzuki has been sensitive to raw material price movements from an early stage, and raised prices three times since January last year, and by slightly below 2% in January this year. However, there seems to be a limit to the price increase, and as already mentioned, it is necessary to devise it from the engineering and development stage, so our engineers are urged to make efforts to improve it. On the other hand, it is difficult to raise prices in Japan because of severe competition. At any rate, we will do everything we can to minimize this impact.

Q9: Besides the impact of raw materials, what is the impact of increased logistics costs? What are the trends toward the next fiscal year?

A. Our motorcycle, marine and spare parts businesses are already suffering from container shortages, inland logistics in the U.S. and delays at ports. Although there is an impression that this is a structural problem, efforts will be made to eliminate supply bottlenecks along with the impact of the sharp rise in raw materials as already mentioned.

Demand is strong at the moment. We have received orders. However, we regret that we cannot produce the car or deliver it to our customers. We intend to deal with logistics issues while incorporating them into risk management.

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