

# Financial Results 1Q FY2019

## Questions and answers in the briefing session for analysts

5 August 2019  
SUZUKI MOTOR CORPORATION

### **(Final vehicle inspection issue)**

**Q1: In the first quarter (April-June), the effect of the final inspection remains, but what is the impact on the full-year results? Also, is the decline in sales due to weak actual demand or production problems?**

A. We established the Inspection Division on 1 June. The organization is fully independent from the Manufacturing Division and headed by a managing officer. The company is currently considering how to report the progress of recurrence prevention measures into the quarterly report to be submitted to the Ministry of Land, Infrastructure, Transport and Tourism (MLIT). Production speed has been slowed down due to the restructuring of inspection process, but now we want to have a system that allows both inspection and production as early as possible while giving priority to normalizing the inspection system. Domestic orders in April-June have maintained the same level as the previous year, but rather than last-minute demand before the consumption tax hike, we believe that this is due to strong orders for popular cars such as “Jimny” and “Spacia”. We will continue to concentrate on customer sales.

**Q2: “Production speed is 2-5% down” accordingly, but the latest sales are down by double digits. Is the effect of the final inspection expanding or prolonged longer than expected?**

A. From April to June, the year-on-year rate of decline has become larger as the month progresses, and it is certain that there is aspect of normalization process being prolonged. As we need to make sure that there are no oversight, while conducting a thorough inspection of inspection and production operations, and such process is taking longer than expected. Anyway, we would like to finish this as soon as possible, and recover trust from stakeholders. Meanwhile, please take into consideration that the hurdles have risen this year due to the instant hit of “Jimny” since start of production in June last year.

**Q3: Your current orders are about the same level as the previous year, but what is the order backlog now?**

A. Although it is true that there are waiting customers, we would like to proceed with measures in terms of both normalizing the inspection and production system as soon as possible and efforts to convince our customers. Both are important, but we are rushing to rebuild the inspection system now.

## **(India operations)**

### **Q4: How do you analyze the factors that demands do not return after the general election?**

A. Although various analyses are conducted locally, the future outlook is still unclear. Credit crunch, mandatory insurance premium increases, BS6 (new environmental standards) cost, etc. have been taken up as stagnation factors. Although we are proceeding with our own analysis, we are still not up to a definite conclusion. With regard to credit crunch, there is no change in the current sales finance utilization rate of Maruti Suzuki, but we will continue collecting information. The increase in mandatory insurance premiums is not very large as an increase in burden, but we will investigate how much does this actually affect sales. With regard to BS6 compliance, Maruti Suzuki plans to introduce BS6 compliant models for majority of the lineup by the end of the year, and will be ready for the introduction of regulations from April next year. Meanwhile, it will strive to minimize the impact of cost increases.

In addition, the government of India has drafted an increase in car registration and renewal costs. Although it is still under determination, it seems that the draft is supposed to work as scrap-incentive, but it also includes a negative factor that increases the registration costs. However, since it is still in the public comment solicitation, we think it is necessary for Maruti Suzuki to have a firm opinion on policies that might drain the market.

In a long-term perspective, as we have stated before, we are aiming to increase the ratio of HV vehicles in India. In that sense, the GST rate for HV vehicles remains at high and we will continue to make petition to the government.

From the above point of view we will continue to focus on Indian situation.

### **Q5: Sales in July were also low, but what is the current wholesale and retail and inventory level? Also, do you plan to disclose the updated forecast again in the future after determining the demand trends in the festival season?**

A. The inventory level in India is almost one month, which is considered appropriate at the moment. The retail sales volume in the first quarter (April-June) was 17% lower than the previous year, which is almost in line with the wholesale volume. We would like to disclose our sales forecast after careful examination.

### **Q6: Is there any impact on the introduction of 2nd shift at Gujarat B plant (2nd plant), the start-up schedule of C plant (3rd plant), and further long-term vision?**

A. Gujarat B plant is still operating on one shift basis. We will decide the timing through careful evaluation of market situation. With respect to Gujarat C plant (3rd plant), we maintain our initial schedule of April 2020.

In addition, our slogan of "5 million units in India in 2030" remains unchanged. We plan to introduce our long term perspective till 2030 together with long term environmental vision next spring, and the work is currently underway in the company.

**Q7: Is the price increase associated with BS6 (new environmental standard) compliance in advance affecting sales?**

A. As for BS6, Maruti Suzuki plans to introduce BS6 compliant models for most of the lineup by the end of this year. Some models are already compliant, and as you may know, the price increase is about 20,000 yen.

Regarding BS6, there are concerns about such a price increase, but on the contrary, non-compliant models cannot be sold after April next year. We want to make the model transition smoothly while keeping sales on track and controlling old inventory.

**(Others)**

**Q8: There are more downside risks in the company forecast for the full year. Are there any risks that you should be aware of other than the failure to achieve the Indian sales plan (+4% YoY) and the impact of foreign exchange?**

A. The risk factor is that India's outlook is difficult, so we would like to proceed with information gathering. Maruti Suzuki's full-year domestic sales forecast of +4% remains unchanged, but we would like to see with Maruti Suzuki whether the macro environment is in such a situation.

Outside of India, the global economy as a whole is uncertain even if we look at stock price movements over the past few days. However, unlike other companies, our company has little influence in the United States and China, so we basically focus on evaluating Indian market.

**Q 9: What is the breakdown of increase in expenses for the first quarter (April-June) of -20.5 billion yen? Is there any temporary factor?**

A. Increase in expenses, etc. of -20.5 billion yen is due to the increase in selling expenses, mainly increase in shipping costs resulting from change in accounting standards of Maruti Suzuki that started in the second quarter last year. There is an impact from recombination of shipping costs. Since the change was not effective in the first quarter of last year, the difference in level is about -8 billion yen. In addition, the recall-related expenses increased to about -11.0 billion yen.

**Q 10: Do you have any plans to take urgent profit measures while the profit environment becomes severe?**

A. Originally, the internal budget is managed as a control budget, but the current policy is to accelerate and allocate necessary investment, expenses, labor costs, etc. for the reconstruction of inspections, etc.

On the other hand, the financial department takes the controlling function to avoid unnecessary and not urgent expenditures and things that cannot be expected to be very effective. After all, it is most important to sell the car, so we will place our endeavours throughout the company, including the sales department.

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