

Financial results FY2021

Questions and answers in the briefing session for analysts

May 11, 2022
Suzuki Motor Corporation

(Impact of parts shortages including semiconductors)

Q1: What is the impact of reduced production due to shortage of parts including semiconductors in FY21? Also, what are your thoughts on the FY22? In particular, the production forecast in Asia seems to be leveling off.

A. The impact of reduced production due to shortage of parts including semiconductors, was explained in comparison with the initial plan for the previous fiscal year, but this represents a decrease of 455,000 units from the initial plan (down 255,000 units in Japan and down 200,000 units overseas). Based on this experience, the President is taking the lead in negotiating with suppliers in the new fiscal year. We are also working with suppliers in order to produce as many vehicles as possible.

In fact, in order to cope with this issue, the former Purchasing division has been replaced with the Procurement Strategy division, and efforts are being made to improve the accuracy of long-term plans and estimates for ordering, as well as to visualize the procurement status beyond tier1 suppliers. With regard to the global production forecast for the next fiscal year (3,096,000 units), we have calculated the maximum possible production reduction based on the information available at the present time, taking into account the fact that the shortage of semiconductors is still unresolved to a certain extent, while also taking into account the aforementioned improvement efforts.

India's production is likely to increase, while other Asian countries have different directions. Indonesia is worried about the reactionary effects of the tax cuts for luxury taxes that were in place until last year, and there is no sign of improvement in situation in Myanmar. None of this may have a major impact on ASEAN, but we will keep a close eye on the situation to ensure that there are no setbacks in ASEAN.

Q2: How have you factored in the Russia-Ukraine crisis and the impact of the Shanghai lockdown?

A. The impact on the Russian-Ukrainian issue has not yet reached the production of Magyar Suzuki (Hungary). We do know that some of our suppliers are sourcing their materials from Ukraine, and we are working to replace them. The production outlook for the next fiscal year incorporates such factors.

We also know what parts are likely to be affected by Shanghai's lockdown, including LED lights, backdoor balancers, and sensors for brake support. Substitutes for these are also under consideration. However, if the problem continues for a long time, more measures will be required, so we will take measures to minimize the impact by closely exchanging information with suppliers.

(Domestic business)

Q3: What is the current status of domestic sales such as the level of backlog? Is sales slowing down?

A. Domestic backlog reached nearly 200,000 units at the end of March, and the trend has been almost the same. Showroom visits and orders have also been brisk since April, the start of the fiscal year.

It may be that most of the cars are minicars, which are highly evaluated for their fuel efficiency, but there is no sign that they are slowing down.

Q4: It seems that the cost of raw materials for domestic automobiles is affected by 50,000 ~ 60,000 yen per vehicle. Do you consider price increase?

A. The fact is that it is difficult to raise the price of minicars because customers are sensitive to prices. However, as you pointed out, the price of raw materials is rising considerably, so one of our future strategies is to review features and specifications to make sure that customers need them. While other companies have not raised their prices, we are facing severe competition, however, we will further strengthen sales and marketing capabilities. In any case, we recognize that we are no longer in the era of selling cars with a variety of equipment.

(India business)

Q5: The Indian passenger car market is expected to be 3.4 million ~ 3.5 million units in the new fiscal year. On the other hand, it will be difficult for you to regain market share if the sales of Maruti Suzuki will only increase by 11% from the previous year as forecasted. How do you think about that and how strong is the current demand?

A. Demand in India is very strong, and we also expect the passenger car market to grow by more than 10% to 3.4 million ~ 3.5 million units as pointed out. Under such circumstances, Maruti Suzuki has backlog of more than 300,000 units, and the market response to the new models such as Celerio and Baleno that have been launched recently is very good. Therefore, we believe that we can increase our market share if we can produce them. It may not be easy to regain the 50% market share, but we will try to recover the market share by introducing SUV model as well.

Q6: Regarding the background of the increase in exports from India to South Africa in particular, if there are any reasons other than the production shift due to the shortage of semiconductors, please share with us.

A. In the past, there were not enough cars for export because India was too busy responding to domestic demand. Now, production for the domestic market dropped due to the shortage of semiconductors. On the other hand, export cars to Africa were less affected by the shortage of semiconductors, so we decided to increase exports. As a result, they had a good local reputation and were able to increase sales. Sales volumes increased, particularly in South Africa.

(Asian business including India)

Q7: 4Q (January-March) sales and profit increased in Maruti Suzuki. Why are sales increased and profit decreased in the Asian segment as a whole? Is it because of the increase in depreciation?

- A. In the Asian segment other than Maruti Suzuki, the Gujarat Plant C, which started operation in April last year, has added 2nd-shift. In addition, a battery factory that started operation at the end of last year began full-scale operation. Depreciation expense increased in the January-March period due to the start of full-scale operation of these facilities.

(Others)

Q8: The impact of raw materials in FY22 is a negative impact of 85 billion yen, but why is it smaller than FY21 (negative impact of 128.3 billion yen)?

- A. Precious metals have declined from high prices at the beginning of FY21, but steel and aluminum have continued to rise. We forecast the new fiscal year based on trends in the price movements of these materials. According to the FY22 forecast, the impact of India is particularly significant, accounting for more than 60% of the total, with Japan accounting 1/4 of the remainder. As explained, the impact on precious metals decreased between FY20 and FY21, and is expected to further decrease between FY21 and FY22. On the other hand, steel products had the largest impact, followed by aluminum and resins, mainly in India. In the end, the reduction in the impact of precious metals was taken into account, resulting in a negative impact of ¥85 billion.
- Furthermore, in terms of procurement strategies, Suzuki and Maruti Suzuki will proceed with efforts to minimize the impact on parts and materials whose prices are likely to rise by purchasing them as early as possible.

Q9: The valuation of the market, which is calculated by subtracting the value of the stake in Maruti Suzuki from the stock price level of Suzuki, is historically low. What are the discussions among the management?

- A. As for the valuation of the stock prices of our company and Maruti Suzuki, we think it is inevitable that the stock price reflects the outside perspective of Suzuki's dependency on Maruti Suzuki performance, because our company's own technological capabilities and achievements in carbon neutrality or CASE initiatives are yet to be seen.
- Therefore, from this fiscal year onward, we will build up a track record of trial production of EVs and other vehicles, and show how we can respond to new technologies properly. In order to exit current stock price level, we will work hard, including measures to utilize Indian human resources.

Q10: Out of the changes in sales composition in FY22 (+111.3 billion yen), what is the impact of unit price improvement? In particular, is there room for bullishness in the pricing strategy in Japan and India, which have backlog?

- A. In the past, India raised the prices of its products while monitoring the increase in the cost of raw materials. Unfortunately, this is not the case with Japan. As explained before, we will review the specifications and work hard on how we can reduce the cost, so that we can maximize profit.

Q11: Expected capital expenditure (290 billion yen) and R&D expenditure (200 billion yen) in FY22 seems quite high. Will these trends continue? What is your view on BEV investment in India?

- A. In terms of future capital expenditure and R&D expenditure, the number of electrification related issues will increase. In FY 22, the amount necessary to acquire land for the construction of a new plant in India will also be added. As already explained, we must also continue to invest in R&D in order to demonstrate its track record in responding to carbon neutrality and CASE.

In this regard, of course, it is important to secure profits, but it is also necessary to actively promote forward-looking investment so that investors can feel that they are happy to have invested in us. Therefore, we expect this high level of investment to continue over the next few years.

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