Financial results 2Q FY2022
Questions and answers in the briefing session for analysts

November 8, 2022
Suzuki Motor Corporation

(Impact of Parts Shortages Including Semiconductors)

Q1: The impact of semiconductors is improving, but what is the current situation?

A. Regarding semiconductors, the supply of components that we have been concerned about is stabilizing to some extent. We believe this is the result of close contact with our business partners and repeated negotiations, but unexpected parts have suddenly become clogged anew. Even under these circumstances, the company has been more calm than before and is working as a whole to supply as many units as possible, thanks to its past experience and initiatives, such as building up part inventories and using general-purpose semiconductors in terms of design for those that might be of future concern.

(Domestic business)

Q2: I presume that rising petrol prices will give advantage to Suzuki that has strength in small cars. What are your thoughts on future demand trends in the Japanese market?

A. On the demand side, the current backlog is plied up beyond 200,000 units. However, this is not to say that it is a relief, and we believe that customers may cancel their orders at any time amid these uncertain economic trends. The sales team will keep in close contact with the customer and respond to the situation.

Q3: With the difficulty of raising prices in Japan, what are your thoughts on profit contribution of your domestic business other than raising prices?

A. Suzuki focuses on mini and compact cars, and refrained from raising prices because our customers are really price sensitive.
However, in the future, we believe that as a manufacturer, we need to review and communicate with our customers about what equipment they are really using and whether we can reduce costs by dropping the equipment.

(India business)

Q4: What is your medium- to long-term view on future SUV launches?

A. As you are aware, the Indian market is also experiencing strong growth in SUVs, with the number of models introduced by manufacturers reaching 40 ~ 50 and their share among the overall market is now between 40% to 50%.
Suzuki, on the other hand, was somehow behind others in the introduction of SUV range, partly due to COVID-19 and other factors. But now, we gave the Brezza a full makeover and added a new Grand Vitara.
We will continue to prepare new products in order to recover market share in the SUV segment. We have products in the pipeline that can compete with competitors, and since we have a sales network that exceeds that of other companies, we are confident that we will be able to recover enough if we can prepare products and production capacity.

Q5: Suzuki is strong in sub-4m segment having tax benefits, but with the popularity shifting to SUVs or cars over 4m, how competitive is Suzuki in that area?

A. As you are aware, the Goods and Services Tax (GST) in India ranges from a minimum of 28% for vehicles with overall length below 4m to a maximum of around 45 ~ 50% for vehicles with an overall length of more than 4m. We believe that the increase in the number of vehicles is also due to the improvement in purchasing power of the middle-income group and the ease of handling of SUVs.

There are SUVs in the sub-4m segment, and our Brezza is the most popular model in the segment, however unfortunately, there was a bit of a delay of model launch in segment above 4m, and therefore, we launched the Grand Vitara. Competitors are also rolling out multiple SUVs, so Suzuki is preparing to roll out a series of SUVs in the same price range with different tastes as a countermeasure.

In the end, however, the customer will evaluate the brand's credibility or the quality of the sales network, including products and services. We have a strong network that has been operating in India for the past 40 years, with as many sales and service points as all the other brands in India combined. We believe we can take advantage of these strengths, so the rest will depend on production volume and product launch.

Q6: How do you balance domestic and exports when the backlog of orders builds up due to the success of new car launches, as well as concerns about production bottlenecks until the start of the new Kharkhoda plant in 2025?

A. As you pointed out, we are seeing very strong demand in India, with over 400,000 backlogs. In parallel, the number of export units has increased from 100,000 to the 200,000 level in the last 2 years or so, so we believe your question is how to balance the overall production.

In the medium term, we will build a capacity of up to 1 million units in Kharkhoda, but in the relatively short term to reach that point, we will add 100,000 units of capacity at the Manesar plant (currently 800,000 units). C Line at the Gujarat plant, which had been working two shifts since January this year, had once reverted to working one shift, but now it is working two shifts again from October, which will make it possible to add as many as 120,000 vehicles on an annualized basis. We will increase the number of cars and cover them as much as possible by further improving production efficiency. In addition, the introduction of new models is changing demand in some aspects, so we want to respond in terms of shifting to bigger and more profitable vehicles.

In terms of the African market to which we export, there are 54 countries, but there is a mix of rising and calm countries. It is true that some of the countries that are growing are more than double, but others are not, so we will balance them well and supply cars from India as the overall market grows. Of course, in order to do that, we need to increase the overall plant capacity. Suzuki expands capacity by 250,000 units per plant, so we want to adjust the overall balance at that pace, while also being able to keep pace with the growth of exports.

It should be noted that the Grand Vitara has received more orders than expected, but since this car is made in Toyota's factory, we would like to discuss with Toyota how to increase production capacity while working with them.

Q7: With rising interest rates and the economic gap between rural and urban areas at the moment, how do you view demand in India?

A. In fact, the economy is not without its share of gloom and doom, and recent GDP growth projections by financial institutions have shown a tendency to revise downward on India, so it is by no means a rosy picture.

Meanwhile, local elections are starting to take place in various parts of India later this year ahead of the 2024 general elections. We are hopeful that the government will properly implement economic policies aimed at sustaining the economy and creating jobs. Of course, India is unlikely to do well alone in a deteriorating global economy, but there is hope that the impact of fluctuations will be a little softer. In fact, the market has grown so much this year that we suspect it will be a soft landing even if it turns into decline.

In the medium term, on the other hand, India's car penetration is still around 3 ~ 4%, so it's a possibility in many ways. On this year's Independence Day, Prime Minister Modi has also set a very aggressive target of 10 times the GDP by 2047, the 100 year anniversary of India's independence, and we expect the growth curve for India to be drawn in that direction.

On the other hand, with regard to the recent rise in interest rates, we believe the current situation is a natural balance because interest rates are rising as a measure against inflation. If interest rates move rapidly, the situation will become severe, but again, as mentioned above, we expect the government to take economic measures with considerable caution over the next 1 ~ 2 years, so we will take measures while closely monitoring the government's measures.

Q8: A few years ago, Suzuki had a vision of "2030 Indian market: 10 million units, Suzuki 5 million units" but isn't this a trend to regain that growth phase? With the shift to electrification and other changes in the environment, what discussions are being held within the company?

A. It is true that we said before the COVID-19 pandemic that we will plan backwards and prepare for production in 2030 and meanwhile to sell 2 million units per annum going forward, but it is also true that we have not been able to achieve that. In this respect, we believe this year will be a year of challenge in a way.

With that in mind, how do we look at 2030 in terms of volume? If the passenger car market continues as it is this year, we believe that there will be in a situation where it will exceed 3.5 million units due to record-high sales in each month. In that case, we are also preparing various capacity in anticipation of a market size of 7 million ~ 8 million in 2030.

The major change in commodities from pre-COVID-19 was the introduction of so-called carbon neutrality, the government's goal of achieving net zero by 2070, as a factor. As a result, EVs and electrification are becoming more popular. However, looking at the recent situation in India, while EVs are definitely a pillar, the government is also preparing to develop alternative fuels such as bioethanol and biogas, the so-called eco-friendly fuels that can be procured within India which are carbon neutral. We believe we need to be prepared for that as well, including a somewhat wider range of powertrains.

(Others)

Q9: How do you summarize the first half results?

A. Summing up the first half, the numbers on the surface are good, but internal efforts were really tough. There were responses to currency fluctuations and soaring raw materials prices, but the semiconductor shortage was the toughest. Although we have become accustomed to dealing with the situation after a long period of time, we have had to deal with production control on site, specification changes in terms of design, and dealing with the situation in order to produce as many units as possible.

In that sense, the financial results were too good. However, despite the weak yen, they could not cover the rise in raw material prices. While overseas countries have responded to the sharp rise in raw materials prices by passing them on, at home it has been difficult.

Q10: What is the breakdown of the change in sales mix, etc., + 53.2 billion yen in 2Q (July-September period)? Why is the second half's gain in change in sales mix, etc. fewer than the first half?

A. By segment, automobiles accounted for 90% of the change in sales mix, etc. in the second quarter (July-September), and by geographic region, India occupies more than half, at 30 billion yen, and in Japan, at slightly below 20 billion yen.

The reason for the decline in sales mix and other growth in the second half of the year compared to the first is that we started raising prices in the second half of the previous year, including in India, and the effect of price increase will expire.

Q11: Why is the second half profit lower than the first half? Are there special factors in first half earnings? What are the risk factors for the second half?

A. The slowdown in the second half of the fiscal year is due to active investment, such as a firm R&D spending and higher depreciation due to capital investment. As the company lags behind other companies in electrification, we need to catch up and meanwhile invest in the new Kharkhoda plant in India. As the environment for semiconductors continues to be uncertain, we recognize that we are not yet in a situation where we can let our guard down.

There is no particular transient factor in the first half results, but the only thing that can be mentioned is that the exchange rate is working in the direction of a weaker yen. On the other hand, in the second half of the fiscal year, R&D spending increased significantly from the previous year in the first half to 95.4 billion yen, but it will increase by more than 10 billion yen in the second half. In addition, capital expenditures are expected to increase as well as investments for the development of electrification and its commercialization, so profits are expected to narrow slightly in the second half, although the number of vehicles and sales will increase slightly.

As a risk factor for the second half of the year, we believe one of the risks is that the global economic trends are totally uncertain, and it is not clear how the rate hikes in developed countries will affect emerging countries, and in that sense it is hard to see, although it is not already apparent.

Furthermore, with regard to the issues of semiconductors and raw materials, there is the question of how far the problems that have already become apparent will continue, and in addition, there is the issue of the shortage of transport vessels. Not only logistics costs, but logistics arrangements themselves are already difficult in Europe, so while this may not be a problem limited to automobiles, we still see it as a risk factor in terms of uncertainty. However, we will remain committed to meeting the goals outlined today, while carefully assessing those risks and taking alternative measures to avoid them.

Q12: There is talk that steel prices have benefited in India since the second quarter (July-September), but why did you raise the full-year raw material impact forecast from minus 85 billion yen to minus 110 billion yen?

A. As for the raw materials outlook for the second half, we expect steel prices to probably remain flat, but we expect precious metals prices to move higher. On the whole, the impact of raw materials in the first half of the year will be minus 59 billion yen, but this is on top of expectations that the first and second halves of the year will be roughly equal.

In addition, our company will cover the increase in the cost of self-sourced parts from suppliers, so the impact of raw materials is assumed to be slightly larger.

Q13: The company has not set its annual dividend forecast although its earnings have recovered considerably and its net cash level is high. Are there any changes in terms of shareholder returns, such as whether investment is a priority?

A. With regard to cash, as mentioned before, there is also an increase in R&D expenses and an increase in the demand for funds to invest in future growth, so we believe that it is necessary to set aside the portion to accommodate these needs.

With uncertainty and so many uncertain factors ahead, we will continue to monitor the situation regarding shareholder dividends.

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