



Q4 FY22 – Investor Conference Call

April 29, 2022

Moderator: Ladies and gentlemen good day and welcome to the Q4 FY22 Earnings Conference Call of Maruti Suzuki India Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pranav Ambaprasad. Thank you and over to you sir.

Pranav Ambaprasad: Thank you Margret. Ladies and gentlemen, good afternoon once again. May I introduce you to the management in the Maruti Suzuki. Today we have with us our CFO, Mr. Ajay Seth; from Corporate we have Executive Director, Corporate Planning and Government Affairs, Mr. Rahul Bharti; General Manager, Corporate Strategy and Investor Relations, Mr. Nikhil Vyas. From Finance we have Executive Director, Mr. Pradeep Garg; Executive Advisor, Mr. D.D. Goyal; Executive Vice President, Mr. Sanjay Mathur and Vice President, Mr. Dinesh Gandhi.

The con-call will begin with a brief statement on the performance and outlook of our business by Mr. Seth, after which we'll be happy to receive your questions.

May I remind you of the safe Harbor. We may be making some forward looking statements that have to be understood in conjunction with uncertainty and risks that the company faces. We also like to inform you that the call is being recorded and the audio recording and the transcript will be available on our website. Please note that in case of any inadvertent error during this live audio call, the transcript will be provided with the corrected information.

I would now like to invite our CFO, Mr. Seth. Over to you sir.

Ajay Seth: Thanks Pranav. Good afternoon, ladies and gentlemen. I hope you and your families are healthy and safe. The country is again witnessing an uptick in number of COVID-19 cases in certain regions. We are closely monitoring the development and taking all precautionary steps in the best interest of the employees' health and safety including that of our value chain partners.

Let me start with some highlights of financial year 2021-22; the company launched two new products, new-Baleno and new-Celerio. Besides the highly fuel-efficient powertrain the Company also offered many industry first technological features in the compact segment cars, such as heads up display, telematics, 360° camera, hill hold assist to improve customer convenience and safety. In the new-Baleno the increased fuel efficiency coupled with the introduction of many technological features that will increase its acceptability. Since its launch in February'22 new Baleno has received more than 80,000 bookings.

During the year, the Company also launched product refreshers in Wagon-R and extended its CNG product lineup with the introduction of Dzire CNG. The year saw customer preferences of CNG vehicles increasing further. The Company's sold over 230,000 CNG vehicles and registered highest ever sales for the CNG vehicles in any financial year. The Company continues to be the most preferred car brand in the country. In financial year '21-22, 8 of the top 10 best-

selling passenger vehicles were from Maruti Suzuki stable. The Company's highly successful MPV Ertiga joined the top 10 best-selling passenger vehicles for the first time.

We thank our customers for their continued trust on our products. We exported 238,376 vehicles in financial year '21-22. It is the highest ever exports in any year by the Company.

The contribution of sales from non-urban markets in overall sales increased to 43.6% in FY '21-22. With strong focus on non-urban markets the company has gained the milestone of cumulative sales of 5 million cars. In the month of March our parent company Suzuki Motor Corporation through its subsidiary Suzuki Motor Gujarat signed a memorandum of understanding with the Government of Gujarat to invest INR 104 billion in BEV batteries and BEV manufacturing capacity. This investment will greatly support in localizing the EV manufacturing and help the Company to accelerate and expand its BEV product portfolio in India. The Company is planning to introduce its first BEV by 2025.

Taking a step towards a circular economy, with an aim to promote the recycling of commodities, Maruti Suzuki and Toyota Tsusho Group's vehicle scrapping and recycling unit commenced operations.

To enhance customer convenience and satisfaction while buying a car, the Company introduced Maruti Suzuki Smart Finance (MSSF) last year. This online, end to end, real time car financing facility is now available across the Country with 16 financiers offering the car financing facility. During the year, through MSSF, cumulative auto loans of INR. 175,000 million were disbursed to over 313,000 customers.

On CSR, besides helping to quickly scale up the domestic manufacturing of PSA oxygen generators. Along with its supplier partners the Company installed 25 PSA oxygen generator plants at various government hospitals in the country as part of CSR, comprising 11 plants from suppliers and 14 from the Company. Together with the help of its parent company Suzuki Motor Corporation, the Company donated 1,004 oxygen cylinders to various government hospitals.

Coming to the business environment,

Just before the start of the FY '21-22, there was a sense of optimism driven by the good demand recovery of passenger vehicles in Quarter 3 and 4 of the previous financial year. With subsiding COVID-19 cases there was a general feeling that the pandemic is nearing an end and a phase of good economic recovery is on the horizon. The business plans of the Company were also oriented towards capturing the market opportunity to the fullest. Preparing the ground for growth, the third manufacturing plant in Gujarat with the capacity of 250,000 units was operationalized in April '21. However, the second wave of COVID-19 at the start of financial year created a disruption in the first quarter and electronic component shortage for the rest of the year. The Company could not produce an estimated 270,000 vehicles, mostly domestic models, owing to electronic component shortage. As at the end of the year, the Company had pending

customer orders of about 268,000 vehicles for which it is making full efforts to fulfill at the earliest.

During FY21-22, the Company's sales volumes in the domestic passenger vehicle market grew by 2.9%. Including the sales of light commercial vehicles, the overall sales in the domestic market for the company grew by 3.2%. The shortage of electronic components largely affected the production of vehicles sold in the domestic market and not as much the production of vehicles for exports. As a result, the Company was able to fulfill the export orders and recorded the highest ever vehicle exports of 238,376 units. The supply situation of electronic component continues to be unpredictable; it might have some impact on the production volumes for FY2022-23 as well.

On cost side challenges, the price of commodities such as steel, aluminium and precious metals which was an unprecedented increase during the year. The Company was forced to increase prices of vehicles to partially offset this impact. The Company continued to work on cost reduction efforts to minimize the impact to customers.

Let me talk about the financial results,

The Company sold a total of 488,830 vehicles during the quarter, lower by a 0.7% compared to same period previous year. The sales in the domestic market stood at 420,376 units, a decline of 8% over that in Q4 FY '21. The sales in the export market were at 68,454 units which is the highest ever in any quarter.

During the quarter, the Company registered net sales of INR 255,140 million, an increase of 11.1% as compared to same period in the previous year.

With this, the operating profit for the quarter stood at INR 17,796 million, the growth of 42.4% over that of Q4 FY'21. Net profit for the quarter stood at INR 18,389 million, higher by 57.7% compared to the same period last year.

The Company sold a total of 1,652,653 vehicles during the year, up 13.4% over the previous year. The sales in the domestic market stood at 1,414,277 units, an increase of 3.9% over FY20-21. The company recorded its highest ever exports of 238,376 units in FY21-22 compared to 96,139 units in FY20-21. This was also about 62% higher than the peak exports in any financial year so far.

During the period, the Company registered net sales INR 837,981 million compared to INR 665,621 million in the previous financial year. Despite a 26% increase in net sales, the net profit for the period declined by 11% over previous year to INR 37,663 million. Though the profit in FY21-22 were lower, the Board of Directors recommended a dividend of INR 60 per share for face value of INR 5 per share compared to INR 45 per share in last financial year. This is a special one-time gesture to thank shareholders for their patronage and support as the Company

commemorates its 40th year since its inception. Thank you. We are ready to take your questions suggestions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Raghunandan NL from Emkay Global.

Raghunandan NL: Firstly, on the order book side, can you indicate what would be the current order book? I think media has been indicating around 326,000. Also, can you share what was the retails in last quarter? My second question was your peers have started launching hybrids, would you be going ahead with hybrid launches in future, would your upcoming SUV's have hybrid options?

Rahul Bharti: You're right, the current order book is more than 3.2 lakhs and we hope we'll be able to fulfill these orders fast. We don't want our customers to be waiting.

The retail number in Quarter 4 including LCV segment is 372,000 vehicles.

So, you talked about hybrids. Hybrids are a very powerful technology, which can work in conjunction along with EVs to help reduce carbon and reduce oil import. They do about 30%-40% of the job of an EV and are many times more scalable. It would be an interesting option and we'll be looking forward to such technologies in the future.

Raghunandan NL: Would you be able to quantify how severe could be the RM cost impact for June quarter given the last 2 months commodity inflation?

Ajay Seth: Difficult to predict at this point in time. As commodities have firmed up, so we find increase in the steel cost because the demand from steel buyers is significantly higher at this point in time. But it is under negotiation. We find that the precious metals, which had gone up immediately after the war, have kind of settled down. But there are concerns largely on steel and some other commodities like aluminium, copper etc. So, it is difficult to give you a guidance at this point in time. We are waiting and watching and it will also depend on how demand and supply pans out in the near future.

Moderator: The next question is from the line of Kapil Singh from Nomura.

Kapil Singh: I wanted to check regarding the demand outlook for next year. There has been an increase in oil prices and some of the segments have shown slowdown in rural consumption as well. So, what are you seeing in terms of current situation on incoming order inflow particularly on rural side for FY23?

Rahul Bharti: Industry estimates of the passenger vehicle segment are between 34 to 35 lakhs, talking about pure demand. But this is subject to supply side constraints. And so, we'll have to look forward. Of course, we share a similar estimate of the industry.

Kapil Singh: The second question is on EVs. One thought is that EVs should start to become significant much faster, for example market size of somewhere between 50,000 to 100,000 in the current financial

year itself and 100,000 plus in FY24 and perhaps markets would directly graduate to EVs instead of hybrid. So just wanted your thoughts on this aspect.

Rahul Bharti: So, if EVs grow, it is good for all. It is good for us also. As we have already announced that we'll be having a production plan in Gujarat, so we'll be there and we'll be there with localization. Secondly it is not EV versus hybrid. It is EV and hybrid. There is a good synergy between them and they both together help us achieve the aim. So, if penetration grows it is good for all.

Kapil Singh: Lastly could you share what is the average discount and the inventory level and also the spare part sales?

Ajay Seth: Discounts were just about INR 11,130/veh, they were lower compared to last year same quarter was INR 16,642/veh and in Quarter 3 they were at about INR 15,000/veh. They're much lower than the average discounts that we have been incurring in the previous year four quarters. I don't have the spare parts separate number with me now, we will get back to you.

Kapil Singh: And inventories?

Ajay Seth: The network stock was at about 40,000 cars as of end of Quarter 4, as of beginning of April.

Moderator: The next question is from the line of Pramod Kumar from UBS.

Pramod Kumar: My first question pertains to the export demand. Because it's been a phenomenal growth, the rest of the industry hasn't done that well in export this year. But just wanted to understand what's the outlook here, because you do talk about the order backlog number for the domestic market. If you can help us understand a bit more about the export opportunity here and whether these volumes and this kind of a growth is sustainable or not and what is the longer-term view you have on the export opportunity as a percentage of your overall volume? If we can help us understand that and also some bit of color on the end markets, what the kind of countries where you're finding success and what more can be done with the new upcoming launch pipeline along with Toyota, so if you can help us get more color on the export opportunity here?

Rahul Bharti: So, Pramod, export is a good opportunity and we started exports to Europe way back in 1988 and we've been working all through. Since the last 2 years we've also renewed our effort, particularly in light of the government's focus on this area. Primarily the measures that we took that helped us become successful were more products, a big increase in network presence, the reach out through the Toyota channels and use of lots of innovative domestic selling practices through distributors in these countries. In terms of geographies, Africa turned out to be a #1 market, and the numbers have been going good. The positive part is that these levels are sustainable. So of course, we have grown steeply, now we would like to consolidate a bit and we will keep our position strong in exports in the future also.

Pramod Kumar: And this is on domestic side; we've been talking about getting back to the 50% market share as early as possible but we've been lagging on the data for various other reasons including semis but our competition has been navigating that probably better. Just wanted to understand are there

any timelines you have with the new launch pipeline coming in this year and next? How quickly would you like to get back to the 50% volume share? Because the 50% volume share this time around will also come with high revenue share given the way the industry has kind of premiumize and your product mix portfolio which will premiumize. If you can help us understand how quickly can we get back to that 50% mark?

Rahul Bharti: Of course, as a market leader our target will be to be at 50% market share or more. There are number of factors responsible for this, one the semiconductor shortage, with the 3 lakh pending orders if we service that then the numbers and market share would be much higher. Second, in the non-SUV segment our market share is above 65%. It has gone up. In every segment other than SUV's our market share has gone up. Whenever we launch SUVs, of course, the market share has to improve. This year will be a good year in terms of launches but specific information we would like you to wait and see the excitement for yourself.

Pramod Kumar: But Mr.Bharti, is it logical to expect that 2024 should be a year by when you should recoup most of the market share losses at your end because the launches will be live. You would have already spent on ramp up and all of that and semi situation is also normalized. So, is it optimistic to expect that '2024 you should get back to that level?

Rahul Bharti: We can't give you a specific milestones or specific guidance. But you can be rest assured, we are very enthusiastic here to get back market share.

Pramod Kumar: Last request, more than a question, to Ajay sir. If you can help us provide more color on commodity because some of the other auto companies have been more kind of sharing more color in terms of what the kind of expected cost inflation for 1Q what they're expecting because we've seen commodity benefits in 4Q. A lot of this will reverse out, so if you can just help us understand the near-term headwind in terms of what's kind of improvement what you're seen and what's the kind of expected price cost inflation what will play out in the first quarter or so, anything if you can provide there that would be very helpful.

Ajay Seth: With whatever discussions that we've been having with our supply chain colleagues. We understand that the steel is almost 50% of all the commodity exposure that we have and steel is firming up. The steel makers are asking for a big price increase, which is obviously under negotiation at this point in time. We do expect that in the first quarter or in the first half, there will be an increase as far as steel is concerned. Precious metals was a shade higher earlier, after cooling down again they went up because of the war but they have now again cooled down. At this point we don't see too much impact of precious metals. Because of some commodities which are petrol-based where we see some increase there as well. So, it's a mixed bag where some commodities are now kind of stable and some commodities, we see increase. Overall, I think the commodity will go up. It's very difficult for me to give you a number at this point in time by how much. But definitely there will be an increase in commodities in the first quarter.

Pramod Kumar: How much is the improvement in 4Q over 3Q because there will be a bit of improvement because of the Gujarat ramp up itself? Your acquisition cost comes down as the volume ramp up but ex

of that pure commodity to commodity what are the kinds of changes in 4Q versus 3Q? Because you used to kind of share that number earlier in terms of directionally as to what in the delta from commodity.

Ajay Seth: The impact of ramping up capacities will really be on the operating leverage which you can see in the results of that in the fourth quarter because you had a better operating leverage compared to the earlier quarters. But in terms of commodities there has not been any reduction in the Quarter 4 on account of commodities. Whatever commodity reductions happened which is very small has been also offset because of other factors because we had to do some market purchase of semi-conductors and things like that. So, there has not been any impact of commodities from Quarter 3 to Quarter 4. It's neither gone up, it's neither gone down.

Moderator: The next question is from the line of Yogesh Aggarwal from HSBC.

Yogesh Aggarwal: Two quick questions, firstly for Ajay sir, I think there he talked about 50 billion CAPEX for FY23 and I saw a free cashflow last year itself was pretty weak. I think it was a negative free cash flow. So, anything around that, what led to this weakness in free cashflow and what you think about FY23? And secondly wanted to ask on CNG. I remember a large share of the order book was CNG last few quarters. What do you think of the supply just around CNG in terms of the monthly run rate? How much can we achieve in the coming months?

Ajay Seth: CAPEX of INR 5,000 crores is something that we've committed for the next year and these are on various projects including the new model launches etc. And besides this, the point that you made on cash flows, there was no increase in cash flow but what I think what we need to look at also is the impact that we had on our working capital last year because the activity was down and therefore the negative working capital that we used to get squeezed last year because of that and this year if the volumes go up then of course there will be release of working capital. To that extent we will see the cash going up again. I think we will be able to manage the INR 5,000 crores through our internal generation during the year and we should not see any reduction in terms of our overall cashflow numbers. These cash flows I'm talking about is for the year '22-23; '21-22 you would have seen a dip because of the reasons I gave you but I'm now saying that in '22-23 with incremental activity and the negative working capital cycle that we work with, we should be able to add some more cash in the balance sheet.

Yogesh Aggarwal: Just to confirm this, 13 billion negative reval of debt mutual fund that doesn't hit P&L right, going forward? That'll normalize with time?

Ajay Seth: Which one?

Yogesh Aggarwal: The negative valuation on debt mutual funds.

Ajay Seth: No so we have to do mark-to-market every quarter. So, whatever is the impact on account of mark-to-market that's reflected in the P&L each quarter.

Rahul Bharti: CNG is almost about 40% of the backlog. So, the wait list is slightly higher and just because of semiconductor chips. But we'll try to service these orders.

Moderator: The next question is from the line of Aryn Pirani from J. P. Morgan.

Aryn Pirani: Firstly, just a bookkeeping question. What was the Gujarat volumes in this quarter?

Rahul Bharti: Gujarat was about 165,000 in the quarter.

Aryn Pirani: My second question was in this quarter we have seen a sharp jump in other operating income. Is there anything that you would like to highlight here as to what is it just volume linked?

Ajay Seth: Some of this is increase in the scrap sales rates etc. so the income has gone up because of that. There is a one exceptional item of about INR 100 crores which is basically grouping issue which is having an income as well as an expense. The way it has to be shown as accounting, it has to be shown as expense as well as an income, you can't net it off. So, therefore in this quarter you're seeing that exceptional INR 100 crores coming in expenses as well as in other operating income.

Aryn Pirani: That's related to you maintaining the same ex-showroom price across the country and the GST thing? Is that's related to that?

Ajay Seth: That's one reason. But it's to do with some other adjustment in accounting that has been done for expense and income. Therefore, you find this gap in this quarter but I think it will get normalized moving forward.

Moderator: The next question is from the line of Joseph George from IIFL.

Joseph George: In relation to the retail number that you gave for the third quarter. On one hand you mentioned that you have a very strong order book. What I notice is that the retail that you gave for the quarter was about 373,000 which is about 30k lower than the wholesale. Why is that kind of a mismatch when you have such a strong order book?

Rahul Bharti: See we have only about 40,000 closing stock. So, to that extent we have to work with variants and colors etc. So that's the reason.

Joseph George: You got to do with the mix impact. So, does it mean that at the end of December you are zero levels of inventory? I mean approximately.

Rahul Bharti: Last year we were working with good level of inventories, now our inventories have thinned out.

Joseph George: The second thing I wanted to check was with respect to the chip issue. You mentioned that you expect some impact in FY23 as well but would it be possible to indicate what percent would be the hit? In the past, I remember in September-October-November you used to put out press releases saying that in the next month you would work at 80% of your planned production or

90% of your planned production. Similarly, would it be possible for you to indicate what the near-term outlook is? If your plan production is 'X' because of chip shortage how much would it come down by?

Rahul Bharti: The situation is quite dynamic. So, what we have done is we have given a general statement through the year that this will be a challenge and we will keep trying to maximize our numbers. Last year, in one particular month we were at 40%-60% so it was important to make a disclosure. But generally chips will continue to be a challenge in this year also and of course we'll try to maximize our numbers.

Moderator: The next question is from the line of Kumar Rakesh from BNP Paribas.

Kumar Rakesh: My first question is that historically we have noticed the seasonality in June quarter where the volume declines from March level. Given that we have a very strong order book should we expect, that usual seasonality should not be there in the June quarter assuming no incremental impact on the semiconductor supply issue?

Rahul Bharti: This time the determining factor will be semiconductors so of course demand exists. At the moment demand is good. We'll have to go by supply.

Kumar Rakesh: And second question was around exports. We have seen pretty strong ramp up there; at the same time, we are running a very large order book in the domestic market. Any strategic reason for prioritizing the export markets over the domestic market?

Rahul Bharti: No. It is not a question of our strategizing. It's a question of chip availability. So, the specs are different, the sources of chips in the export models are different. If we had an option, we would obviously have the domestic market first. Since we could not produce those domestic models and the chip shortage did not affect the export model therefore, we use the export opportunity.

Kumar Rakesh: One final clarification on the order book part. You said that current order book is more than 320,000 units. That's more than 50,000 increase in less than a month's time. Has that underlying demand is significantly accelerated or our production is different than where it was earlier in this year?

Rahul Bharti: It is the new Baleno also. We have the Ertiga and XL6 launch also.

Moderator: The next question is from the line of Pramod Amthe from InCred Capital.

Pramod Amthe: First question is with regard to your standing on CAFE for FY22? What's the number you are able to achieve on CO2 and if you can give us some color in terms of how does CNG helps you versus gasoline or the other mode of fuels to reach this goal?

Rahul Bharti: It was not very clear but if I got you right, so Maruti is best positioned among all car manufacturers on CO2 as measured by the CAFE norm. We have the least CO2, the weighted

average number for our entire fleet and we hope to keep our leadership there. On your question on CNG, it helps us give about a 20% to 25% benefit in CO2 with respect to gasoline.

Pramod Amthe: Would you like to disclose where your CO2 stands for FY22 and is it substantially below norms?

Rahul Bharti: These figures come into the public on the government website, MoRTH website. But the last figure we had was about 113 gms/km, weighted average. I'd like to qualify, we have to keep in mind that after BS-VI, the measurement of CO2 has become more stringent. So, the CO2 numbers with the BS-VI methodology and the BS-IV methodology are not comparable.

Pramod Amthe: You are saying it will go up just because of BS-VI and then with your efforts it has come down?

Rahul Bharti: Yes. BS-VI makes it more stringent to achieve CO2 reduction. The same model if tested on BS-VI methodology will show higher CO2.

Pramod Amthe: Second is with regard to the CAPEX side. You have already done this year FY22 a big number I think it's because of the new land acquisition and you are guiding again a lumpy number. Would you also give in terms of where this is going to be spent and incrementally where is it going into, if we have to look at the 2 years back and where are you spending and directionally where it will take you? Second related to the same is, you have one under the component PLI. What is your effort there, what is the CAPEX commitment towards the same and how it will strengthen Maruti over next 3 to 4 years?

Rahul Bharti: So, I'll take the PLI question first. We had applied along with our contract manufacturer / sister company SMG in the auto scheme and we had applied in the auto components scheme also. So, EV scheme and the components scheme both have been approved. So, the Government has a threshold of investment for every year. We will be meeting that requirement. In fact, if we go by the recent announcement, SMG total investment will be about 10,000 crores on the EV and its battery. So, we will be going ahead with.

Pramod Amthe: And specific to the component because that will flow through the Maruti, right balance sheet? Where we need to be focused on? Which areas you have planned to focus?

Rahul Bharti: The components scheme will be on Maruti balance sheet. The EV, PLI is on SMG balance sheet.

Pramod Amthe: You are only unique in terms of doing the component spend right compared to other car makers or auto makers. So hence wanted to know where is that effort going to be and how your localization can change or the cost of producing them can drastically change over 3-4 years? If you can give some color?

Rahul Bharti: Other manufactures have also applied for components also. There's a long list of components where you can, it's called AAT, Advanced Automotive Technology. So, we can club more technologies so we had applied for CNG.

Moderator:

Thank you. Ladies and gentlemen that was the last question for today and with this we conclude today's conference call. On behalf of Maruti Suzuki India limited, we thank you for joining us and you may now disconnect your lines.