Q4 FY23 – Investor Conference Call

April 26, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY'23 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: Ladies and gentlemen, good afternoon once again. May I introduce you to the Management Team from Maruti Suzuki. Today we have with us our CFO – Mr. Ajay Seth; from Corporate we have Executive Director (Corporate Planning & Government Affairs) – Mr. Rahul Bharti; and General Manager (Corporate Strategy & Investor Relations) – Mr. Nikhil Vyas; from Finance; we have Executive Director – Mr. Pradeep Garg; 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 will 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 the uncertainty and the risks that the Company faces. I would also like to inform you that the call is being recorded and the audio recording and the transcript will be available at our website. You may 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: Good afternoon, Ladies and Gentlemen,

In its 40th anniversary year, despite the shortage of electronic components, the Company recorded its highest-ever annual sales volume. The annual turnover of the Company surpassed Rupees ONE LAKH crore mark.

Financial year 2022-23 was also an action-packed year for the Company. It worked on multiple fronts. Among other things, it introduced three new models, four product refreshers, one of the world's best Strong Hybrid Electric technology, six-speed automatic transmission technology, and a host of new-age technology features. Additionally, the Company extended the CNG powertrain to six models, ensured that its entire portfolio complied with new regulations/norms, started construction of a new manufacturing facility, demonstrated an electric vehicle concept, enhanced its manufacturing flexibility to accommodate market fluctuations, maximised the production volume amidst shortage of electronic components, and expanded the digitalisation drive.

The Company strengthened its product portfolio in the SUV segment with the launch of Brezza and Grand Vitara, thereby increasing its market share in this segment. Moving forward, with Jimny and Fronx, the SUV product portfolio of the Company will be further strengthened. With this, the Company aims to secure a leadership position in the SUV segment.

The Brezza and the flagship SUV Grand Vitara garnered strong bookings since their introduction. The phenomenal success of Brezza and Grand Vitara stands as the testimony of Company's ability to command a larger volume in higher-price segment vehicles. The Company believes in offering products and technologies that are relevant to the Indian market context. Through extensive market research, the Company gathered that in the high-priced vehicle segment, customers prefer feature-loaded vehicles. The Company offered a flurry of classy features in these new models, which added to their excellent acceptance.

Driven by new model launches, product refreshers, introduction of the Strong Hybrid powertrain, and the expansion of the portfolio of CNG-powered models, the Company's new model activity saw a multi-fold increase during the year. On the product regulations, phase-2 of Corporate Average Fuel Economy (CAFE) norms were mandated from 1st April 2022. The Company undertook relevant modifications in products and powertrains to ensure compliance with BSVI (phase-2) norms and to make all the models compatible with E20 fuel. Given the Company's wider portfolio, comprising 16 models and over 100 variants, carrying out regulatory compliances is not only resource intensive but also extremely challenging. The Company, with meticulous planning and in close collaboration with various stakeholders ensured timely compliance.

The new models and product refreshers introduced during the year specially in Utility Vehicles (UVs) segment received good market response. However, the shortage of electronic components restrained the ability of the Company to fully serve market demand. The Company could not produce about 170,000 units due to shortage of electronic components during the year.

To expand production capacity, the construction of a new manufacturing facility in Kharkhoda, Haryana has started. A plant with a capacity of 250,000 vehicles per annum is to be commissioned within the year 2025.

In addition, in light of the estimated market demand including exports, the board today in principally approved the creation of additional capacity of upto one million vehicles per year.

Now, coming to the financial results, of Quarter 4 (January-March), FY2022-23

The Company sold a total of 514,927 vehicles during the Quarter, higher by 5.3% compared to the same period previous year.

In the Quarter, the sales in the domestic market stood at 450,208 units, up by 7.1% over that in Q4 of last year. The sales in the export market were at 64,719 units as compared to 68,454 units in Q4 of previous year.

During the Quarter, the Company registered Net Sales of INR 308,218 million, an increase of 20.8% compared to the same period, the previous year.

The Operating Profit for the Quarter stood at INR 26,111 million, a growth of 46.7% over that of Q4 of previous financial year on account of higher sales volume, improved realization from the market, and favourable forex movement.

Net profit for the Quarter stood at INR 26,236 million, higher by 42.7% compared to the same period previous year.

Coming to the Full Year (April-March, FY2022-23), the Company sold a total of 1,966,164 vehicles during the year. This translated to a growth of 19% over previous financial year. In the previous financial year the sales of vehicle was 1,652,653 units. Sales volume in the year comprised 1,706,831 units in the domestic market and highest-ever exports of 259,333 units.

During the period, the Company registered Net Sales of INR 1,125,008 million compared with INR 837,981 million in FY2021-22.

The Company recorded an Operating Profit of INR 81,844 million in FY2022-23 as against INR 29,147 million in FY2021-22. The Company was able to better its operating profit on account of higher sales volume, improved realization from the market, and favourable forex movement.

With this, the Net Profit for the year rose to INR 80,492 million, which is the highest-ever. The Net Profit in FY2021-22 was at INR 37,663 million.

The Board of Directors recommended highest-ever dividend of INR 90 per share (face value of INR 5 per share) compared to INR 60 per share in FY 2021-22.

We are now ready to take your questions, feedback and any other observations that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: I wanted to understand the volume outlook for next year, both from demand and supply side. And particularly from a supply bottleneck point of view if you could talk in terms of what are the factors that are causing these, are these specific to some vendors of powertrain for Maruti Suzuki or is it an industry wide issue. And how do you plan on addressing them so that we can achieve that ahead of industry growth that we are expecting?

Rahul Bharti: So, Kapil for FY2023-24, the industry body SIAM estimates passenger vehicle industry to grow between 5% - 7%. Maruti Suzuki should grow well beyond this. So, we will be better than industry.

Kapil Singh: Yes, basically we have seen strong demand even in the current year, but we missed out because of the supply bottleneck. So, what I am trying to understand is, are these bottlenecks specific to some powertrains or vendors for Maruti Suzuki or is it an industry wide issue and how do you plan to address them in the next year?

Rahul Bharti: Yes, I am fully with you. We feel the loss of production because of supply side bottlenecks, semiconductors. The problem is a global one and it is due to a combination of factors such as a particular supplier, a particular plant, a particular country, a particular design of a model. So, basis the combination it could affect different models, different manufacturers, different modules of the car differently. All our efforts are to organize supplies through multiple sources. We are also doing depopulation for example if there is a particular semiconductor in a particular variant of a model which is superfluous, which is not required, sometimes because of commonization you keep it. We are removing all such semiconductors. So that our consumption is the minimum. All those efforts are going in including negotiations at global scales. However, we are still vulnerable to supply side bottlenecks.

Kapil Singh: And the second question was on cost and margins. If you could just talk about, we are seeing some increase in raw material to sales (ratio) this quarter so if you could talk us through in terms of what were the factors that impacted this, how are the discounts for the quarter and what is the outlook for next year?

Ajay Seth: Discounts during the quarter (Q4 FY2022-23) was at INR 13,269 per vehicle, they were lower than the 3rd Quarter (Q3 FY2022-23) and they were slightly higher than Q4 previous year (Q4 FY2021-22) was at INR 11,130 per vehicle. Q3 FY2022-23 was higher at INR 18,291 per vehicle. So, the raw material to net sales (ratio) is a combination of many factors. The proportion of sales of products manufactured both at SMG and at Toyota has gone up. There the concept of transfer pricing works, fixed cost of theirs' is loaded on to the material cost. So, while you are seeing absolute profits have gone up, as a percentage there will be slight change. Because if that proportion of products from SMG and Toyota is higher, then of course the load of overheads also goes into the material cost due to the transfer price. So, that is the main reason.

But other than that, the raw material prices have pretty much remained constant and there has not been any significant change. Discounts have in fact come down compared to the 3rd Quarter. And foreign exchange rates also have been stable, in fact Yen was at 140 per USD in the 2nd Quarter, it is now slightly deteriorated to about 132-134 per USD, so there would be some impact of the foreign exchange as well, but not significant. So, I think these are the factors that have resulted in the ratio that you see as it reflects in the quarterly account and full year accounts.

Moderator: Thank you. Next question is from the line of Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: My question is a follow-up to what Kapil asked, if you can just help us understand because of the kind of changes in the models we have done, the kind of feature enhancement what you are planning and the changes to transmission. What has been the kind of jump in the average consumption of semis for you because the market has a difficulty in believing that we have been continuously plagued with the semiconductor shortage over more than a full year now and it's not expected to resolve anytime soon but just want to understand within Maruti, given the model mix, what you enjoy currently, what has been the kind of semiconductor intensity increase what you have seen on the year-on-year basis, on the per model basis the average semiconductor numbers what you had earlier, what is it now so that we can better appreciate the kind of scale of issues of what you are facing.

And the second question was on the demand for the entry level car segment. We continue to see that category continues to shrink. So according to you, where do you think demand could settle on the lower side for that segment? And what will be needed from a macro perspective for that segment of first-time buyers, an entry level car buyers to kind of make up for that.

Rahul Bharti: On the first question, yes, because of higher functionality, premium features, technology, infotainment, the semiconductor content in the car has gone up. It's difficult to put a number because it's a model wise, variant wise phenomenon. Having said that, globally also one of the reasons, one of the drivers of semiconductor consumption is increase in larger cars and some EVs in Europe also. So, I think all manufacturers are affected, everybody complains about semiconductor shortages, everybody has pending bookings, so it's an industry wide phenomenon.

And one element that sometimes hurts more is that when semiconductor manufacturers peg the new year allocations based on past base figures so that sometimes works to disadvantage.

On your second question. So, this year entry level cars in FY2022-23 were higher than in the previous year, with a reasonably good growth. However, for FY2023-24 we expect a flattish growth.

Pramod Kumar: So, Rahul san, that's actually positive because generally we have been picking up that entry level demand continues to be under pressure industry wide and it's declining even now, but you expect that it could be flattish on a full year basis?

Rahul Bharti: So, in the backdrop of low expectations this is somewhat positive.

Pramod Kumar: And last one on the order book status, what is the current order book number, I think still early days with the Fronx price announcement but where do we stand on the order book side? And if you can give a broad breakup of the order book in terms of CNG and key models, just to understand what is the kind of model mix on the order book versus say just 21% volumes of SUV and MPV right now, what is the kind of order book mix, if you can help us understand, thank you.

Rahul Bharti: So, the total order book as of today morning would be about 412,000 units. CNG is about one-third of that. And the new SUVs that we have launched are also at a good number.

Pramod Kumar: Last one, other expenditures, any comment on the Auto Expo related lumpy expenses this quarter, because that will probably not reoccur for the new few quarters at least. So, any color there as to what, how big was that.

Ajay Seth: On the marketing side I think the exception would be Auto Expo which happens once in two years. The expenditure was about INR 40 crore that occurred in this year, which I think will not get repeated in the next year.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: Just before I get to my questions, I just had a follow up on this semiconductor thing, because I mean I do understand that its vulnerable, but can you just give us some clarity as to are there any vendor conversations which give you an indication that second half could be normal. I mean any clarity around when do you see this normalizing, because I did see some flashes that you all were talking about two, three quarters. So, is this some vendor negotiations which are ongoing or capacity increase?

Rahul Bharti: We do not have full year visibility, but at least Quarter 1 will be tougher than other quarters. And broadly the uncertainty continues.

Gunjan Prithyani: And the second question I had was on the RDE related cost impact, if you can just give us some sense on what was the cost implication and are we adequately covered up with the price increases that we have taken?

Rahul Bharti: Fortunately, BS6 Phase-II for gasoline doesn't cost much and now possibly analyst would be able to look back at the decision we made when we decided to exit diesel. Because diesel RDE and OBD (Onboard Diagnostics), both are part of BS6 Phase-II, which were mandated from 1st April, this year, so diesel models would have seen a significant cost jump.

And this year we will also have ESC (Electronic Stability Control) that will have a minor cost impact and will have seatbelt reminders that will also have a minor cost impact. Other than that, we don't see any regulatory impact this year. In CAFE we are the best, we have the least CO2 among all the car manufacturers in India, we have the cleanest fleet with the lowest CO2 value. And I do believe that not all are in a similar comfortable position. So, on the regulatory front Maruti is well positioned.

Gunjan Prithyani: Any clarity on the airbag thing that we have, since you said we are not expecting any further regulation.

Rahul Bharti: So, it is still in a draft notification stage, and industry is in discussion with the government. I believe they will arrive at some workable solution.

Gunjan Prithyani: The second question I have is little bit broader one on this whole EV shift which is becoming more prominent in the fleet segment, because we have seen some of these shared mobility guys come and make big commitments on the EV front. How are we thinking about that segment, because it's been an important segment for us particularly at the small car, entry car segment. So, is there something that is in the works or how do we position for this greener shift that even the shared mobility companies are calling out for?

Rahul Bharti: See, sometimes we use terms interchangeably when we say greener shift, the green is in the CO2 value. Maruti Suzuki has the least CO2 emissions among all car manufacturers in India. For the simple reason that it is not just 1% of your portfolio which contributes to the CO2, it's the balance 99% also. So, the entire portfolio, all the volume of sales have to have a lower total CO2 that's how the green shift happens.

Now coming to your question about EV in shared mobility, we will be launching our EV next financial year, which is FY2024-25. And the specifications are quite powerful 550 km range, 60 kWh battery size and very competitive charging time also. And all the use-case patterns, we are studying closely and we will be there where the market needs us.

Moderator: Thank you. The next question is from Raghunandan NL from Nuvama Institution Research. Please go ahead.

Raghunandan NL: My first question was on precious metal they form more than 5% of your RM cost, and in last two months Rhodium, Palladium seems to have taken a fall of anywhere between 10% to 30%, just wanted your thoughts on how are you seeing the commodity basket going forward.

Ajay Seth: So, commodity is a mix bag. As you have said that some of the precious metals have corrected, the impact comes with a lag effect. So, as we mentioned there is a quarter lag in the impact that's captured. But there are certain other commodities which have also see an uptick. So, it's a combination of all that you would have to see, but yes you are right, Rhodium and Palladium have seen some correction from the levels that they were at.

I think for us the biggest commodity still remains as steel, where we have been told by our supply chain team that moving forward, they are seeing some increase in prices given that demand is picking up now. So, that's something that we need to watch because half of the commodity basket is steel, and the balance half is the other commodities. So, I think it's a combination of all, so the impact of this, if any will be captured in the Q1 FY2023-24, but it will have to be seen along with all other commodities put together.

Raghunandan NL: For FY'23 if you could give some color in terms of customer mix how has it been for rural versus urban, first time buyer, additional buyer and replacement buyer, how has that changed, which segments are doing well?

Rahul Bharti: So, the first-time buyers is about at 42% and it's fairly consistent with the past; replacement buyer at 21%, additional car in the family is 37% and rural continues to be strong.

Raghunandan NL: So, share of replacement has gone up?

Rahul Bharti: Yes, marginally gone up from 19% to 21%.

Raghunandan NL: And going forward, which customer categories you expect to do better?

Rahul Bharti: Of course, the larger shift is the move towards premium cars, towards SUVs. So, SUVs are now a large part of the overall market, I think we are at 43% and this may increase further. So, there is clearly a shift towards SUVs.

And fortunately, we have also launched a number of very exciting products in this segment. So, that is the biggest trend that we are seeing as of now.

Raghunandan NL: Just to clarify, I was trying to ask in first-time, replacement and additional buyer, how do you see the trend going forward, that's the last question from my end.

Rahul Bharti: So, the first-time buyers continue to be under some kind of pressure while the replacement and additional buyers can see an upward trend.

Moderator: The next question is from the line of Amyn Pirani from J.P. Morgan. Please go ahead.

Amyn Pirani: My question was on this capacity announcement and the CAPEX numbers. I think this year you spent around INR 6,000 crore and it seems from some press releases, from the press comments its INR 8,000 crore for next year and there is a talk of a million capacity. So, this million capacity will be coming in the same place where you are doing the 250,000 units/annum Haryana and what would be the timeline for that?

Rahul Bharti: No. The 250,000 units/annum in Haryana is the first plant in the Kharkhoda site, district Sonipat. And Kharkhoda site has room for four such plants going up to one million. What the Board approved today in principle was one million in addition to what we have in Kharkhoda. But it is at a preliminary stage, this is an in-principle approval, more groundwork needs to be done. Where, how, what, at what cost all that needs to be done.

Amyn Pirani: And would it be fair to say that the 1.3 million that you mentioned that you have in Gurgaon and Manesar remains at that or does this new one million also mean that this 1.3 million could also have some reduction especially in Gurgaon where you are already you know I mean almost in the middle of the city.

Rahul Bharti: I understand what you are saying. In fact, Manesar will go up by one lakh in the next Financial Year 2024-25 because in the intermediate we will need more capacity to serve market demand. And a lot of this picture will emerge as time progresses, so in the next 2-5 years depending upon how the market grows, we might have to follow a reactive strategy and keep adjusting ourselves to this. Having said that, we cannot say that Gurgaon will reduce as of now, it depends on the market.

Amyn Pirani: And just lastly, can you confirm the INR 8,000 crore CAPEX number and what it would be spent on, for next year that's all from my side.

Ajay Seth: Yes, INR 8,000 crore is the CAPEX number for next year, and I think there is this Kharkhoda investment that's going to happen, there will be also investment in new models, new projects. There is also the regular expenditure on the annual maintenance of all the CAPEX that we have. So, it's a combination of all this. But I think the majority of this is towards the new Kharkhoda plant.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Firstly, can you talk about our realization this quarter was moreover flattish on QoQ basis despite discounts going down, despite mix improving. So, is there any one-off there, can you talk about that?

Ajay Seth: No, there is no one-off, I think it is all to do with the mix that you are selling in a particular quarter. And as I think it was earlier mentioned that due to semiconductor shortages you have to adjust your mix to the available models that you can sell. So, depending on what models you have sold in a particular quarter your realizations will vary, but I think it should be looked at from a year's perspective that the realizations on a yearly basis have moved significantly higher, don't go by a quarter basis, because it will largely depend on the mix and the availability of semiconductor. I think moving forward as our focus is on the newer models and also the bigger models you would see the realization going up.

Jinesh Gandhi: And can you share some data points like what was our export revenues for the quarter and the full year, what was the royalty for the quarter and Gujarat production for 4th Quarter and FY'23 quarters as a whole?

Rahul Bharti: Exports revenue in Q4 was INR 3,900 crore approximately. And for the full year it was INR 14,652 crore.

Jinesh Gandhi: Gujarat production, for full quarter and full year?

Ajay Seth: Gujarat production was 186,786 units, this quarter. And for the full year Gujarat production was at 671,692 units.

Jinesh Gandhi: And lastly on the CNG side are we seeing some stability and recovery given the developments in the CNG prices? And what was the CNG sales for the full year FY'23?

Rahul Bharti: So, last year we sold about 330,000 CNG cars. And of course, this year we should grow from that number. And yes, there is positive traction after the government rationalized prices. Our penetration for the full year was at 20%, but in some months it has gone beyond 20% also.

Moderator: Thank you. The next question is from the line of Pramod Amthe from InCred Capital. Please go ahead.

Pramod Amthe: The first question is with regard to the sourcing from Toyota, so there have been some talks about capacity expansion of 30% happening there. Will it also benefit your sourcing of products from there, any thoughts?

Rahul Bharti: So, of course, since there is a constraint, so we are negotiating all the time. And if there is any increase we will let you know.

Pramod Amthe: And the second question is with regard to the expansion plans which you are planning, it seems to be pretty aggressive as compared to what initially you thought. And since this is happening more from internal accruals, any thought in terms of your dividend payout policy in the period going up to commissioning of this capacity?

Rahul Bharti: So, I hope you know this time we had the highest ever dividend per share.

Pramod Amthe: Yes, but we were looking for the payout, right, what you ultimately earn and you give out. So, because the last time the payout policy was announced when Suzuki setup the plant, to give that comfort, so just wanted to get directionally, how are you guys looking at managing the resource?

Rahul Bharti: So, you know, of course, as you rightly mentioned most of the CAPEX on new capacity can be met through internal accruals and hopefully it should happen through positive free cash flows. So, the dividend question always remains with us.

And the last word, on technology, the auto industry is going through a major transformation, it's not just technology, its business models also. So, many areas where we might need investment we are watching, but you would have noticed a calibrated increase trend in the dividends also.

Pramod Amthe: And the last question is with regards to a couple of new initiatives, which you have taken in terms of the new way of financing the vehicles or to that extent the digital sourcing. Any update in terms of what's being the benefit of that on the sales? What proportion you have been able to source there?

Ajay Seth: See the market place that we have been using for financing, I think that's been a very good, it has been welcome by the customers, because they get a platform where they are able to get the best rates, given the credit profiles. And we have seen a significant uptake in terms of increase in the penetration through that portal.

So, all these digitization initiatives that have been going on in the marketing are really paying off and this is one of them in terms of giving them a platform where they can compete, financiers can compete for offering the best rates to our customer with their credit profiles. And I think it significantly increased from when we started, and virtually all banks are now participating in it.

Moderator: Thank you. The next question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: My first question is on the Grand Vitara model. I think the strong hybrid variant mix seems now be the mid 20% based on your last update versus in excess of 40% at the time of the launch last year. So, could you just share your thoughts on what could be driving this normalization? And any thoughts you are able to share around the Company's plans for strong hybrid technology for the other utility vehicles in the portfolio would also be helpful.

Rahul Bharti: See this is a very normal phenomenon across, it's not just to do with the powertrain. Whenever we launch a new model, the first few sales have a higher percentage of the topmost variant or the topmost features or functionality and then it normalizes after that, because the early adopters you know, they take the bookings first. So, it's a very normal phenomenon across features, not just the powertrain. You are right, it's in the mid-20s and the people who drive this car or drive this strong hybrid technology are very happy with it, we have got a positive response. We plan to bring in more models also, as you mentioned.

Chandramouli Muthiah: My second question is on the channel inventory numbers, as things stand maybe if you could just share your channel inventory numbers for the domestic market, export market, factory inventory and sort of discount per vehicle as well, please.

Rahul Bharti: Inventory is below normal, it's about two to three weeks. We would have liked it to be higher.

Chandramouli Muthiah: And just the discount per vehicle as well at the end of the quarter.

Ajay Seth: Mentioned it earlier for the quarter it is at INR 13,269 per vehicle.

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.