Q3 FY24 – Investor Conference Call

January 31, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY24 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 the operator by pressing "*" and 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, Sagar. Ladies and gentlemen, good afternoon once again. Welcome you all to the Q3 FY24 Earnings Call. May I introduce you to the Management Team of Maruti Suzuki.

Today we have with us our Chief Investor Relations Officer, Mr. Rahul Bharti, and CFO, Mr. Arnab Roy.

Before we begin, 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 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.

The conference call will begin with a brief statement on the performance and outlook of the business by the Chief Investor Relations Officer and Executive Officer, Corporate Planning, Mr. Rahul Bharti, after which we will be happy to receive your questions.

I would now like to invite our Chief Investor Relations Officer, Mr. Rahul Bharti. Over to you, sir.

Rahul Bharti: Thanks Pranav. Good afternoon, ladies and gentlemen and thank you for joining us. Today I will share an overview of the industry and sales performance followed by the business performance of the Company.

The Indian passenger vehicle industry registered a record sale of 4.1 million units in the calendar year 2023, making it the third largest market in the world. In the industry the share of the utility vehicle segment continues to expand. In Quarter 3, the share of SUVs increased to about 53%. Together with MUV, the share of UV in the industry is about 63%.

In terms of fuel type, the share of CNG vehicles in the industry further expanded to about 16.5% in Quarter 3. Hybrid vehicles have also seen good traction and now the share of hybrid vehicles has increased to ~2%.

I would also like to share some of the sustainability initiatives of the Company.

- As you may be aware, for an automobile company the carbon emissions from its products contribute to about 80% of the total emissions. As per the last released fuel efficiency compliance report from the Ministry of Road Transport, the Company had the lowest carbon emitting fleet in Financial Year 21-22. The second phase of CAFE Regulations was implemented in the last financial year, when the CO2 emission targets were tightened. The results are yet to be released, but Maruti Suzuki is confident of meeting its target and very hopeful of maintaining the leadership in terms of lowest carbon emitting fleet.

- The Company has embraced a multiple powertrain approach rather than focusing on a single technology to reduce the carbon footprint of its entire fleet.
- In CNG, a strong portfolio of 14 vehicles is helping the Company in lowering carbon emissions. Also, CNG fueled vehicles have lower running costs. In Quarter 3, with sales of over 127,000 units, the contribution of CNG vehicles in our sales has increased to an all-time high of ~30%. In future, the Company is exploring the option of compressed biogas.
- The Company is on course to start production of battery electric vehicles in 2024. In addition to serving the domestic market, this mid - SUV segment product will be exported to developed markets such as Japan and Europe.
- Apart from products, the Company also focuses on reducing the carbon emission in its operations. Use of railway in dispatches of vehicles is one such initiative. In 2023, a record 422,000 vehicles were dispatched through railways. The share of railways in total vehicle dispatches has increased to over 20%. The upcoming railway siding at Manesar plant will further help in increasing the vehicle dispatches through railways.
- With the objective of increasing the use of renewable power, in the next financial year, the Company is planning to increase its solar power generation capacity from 26.3 MWp to over 48 MWp.

Let me now share some of the business highlights of the Company:

- In calendar year 2023, Maruti Suzuki crossed the annual sales milestone of 2 million units, which is its highest ever sales in a calendar year.
- With its highest ever exports of about 270,000 units in 2023, the Company continues to be the largest exporter of passenger vehicles from India.
- With a good market acceptance of all its seven utility vehicles ranging from entry SUV, Fronx to top of the line Invicto, the Company continues to be a market leader in the utility vehicle segment.
- During this financial year, the Grand Vitara became the fastest mid-SUV to clock the 1 lakh sales milestone.
- Now, Fronx SUV has set a new benchmark in the passenger vehicle category by becoming the only new model launch to clock one lakh sales in 10 months.
- The Company is optimistic on the growth prospects of domestic market as well as the export potential of cars from India. The Company is planning a two - fold increase in its annual production capacity to about 4 million by 2030-31.
- The setting up of a greenfield project in Kharkhoda, Haryana, is part of its ambitious plan. Construction is already in progress at Kharkhoda and the first plant with an annual production capacity of 250,000 units is on course to be operational in 2025. The Company has space to set up four such plants with a total capacity of 1 million units in Kharkhoda.
- Recently, in Vibrant Gujarat Summit 2024, the Company signed a MoU with the Government of Gujarat as a preference to set up a new automobile manufacturing facility. This is subject to the availability of suitable land. This new plant in Gujarat is aimed to start operation in FY 28-29. In the future, the annual production capacity is expected to become 1 million units with a total investment amount of Rs. 35,000 crores. After finalization of land and due approval from Maruti Suzuki India Limited's Board, the exact location of plant will be shared in due course.
- You may remember that when we interacted during the last investor call in October '23, the voting on the proposal to acquire Suzuki Motor Gujarat (SMG) was in progress. With over 98% votes in favor of the proposal, the acquisition was approved by the shareholders. We would like to thank all the shareholders for their support. Now SMG has become a fully owned subsidiary of Maruti Suzuki.
- The effect of SMG becoming the Company's subsidiary has been incorporated in the consolidated financial statements. Principally, SMG's costs and revenue items have been adjusted to their natural heads. The raw

material cost in standalone results also includes employee cost, manufacturing overheads and operating income of SMG. So, these 3 items have been removed from raw material cost and adjusted into their natural heads in the consolidated results. Similarly, the depreciation of SMG, which is accounted in manufacturing cost in standalone results, has been shifted to depreciation cost head in consolidated results. Effectively, in the consolidated statement, the EBITDA margin has adjusted upwards while the EBIT margin is largely at a similar level.

Coming to the highlights of Q3 (October-December), FY 2023-24

The Company sold a total of 501,207 vehicles during the quarter. Sales in the domestic market were 429,422 units. The Company exported 71,785 cars, the highest ever in any quarter. The same period in the previous year saw total sales of 465,911 units comprising 403,929 units in domestic and 61,982 units in the export market.

The growth in net sales outpaced the growth in sales volume due to a higher contribution of utility vehicles to total sales volume. And with this, the ASP increased by 6%.

The net profit for the quarter rose to INR 31,300 million from INR 23,513 million in Q3 FY22-23, a year-on-year growth of over 33%. This was on account of higher sales volume, cost reduction efforts, favorable commodity prices and higher non-operating income.

Coming to the highlights of nine months (April to December), FY 2023-24

In 9M FY23-24, the Company recorded its highest ever nine monthly sales volume, net sales, operating profit, and net profit. The Company sold a total of 1,552,292 vehicles, registering a growth of 6.9% over 9M FY22-23. Out of the total sales volume, 1,346,965 units were sold in the domestic market and 204,327 units were exported.

The Company registered net sales of INR 982,403 million, a growth of 22.3% over the period of April-December'22.

You may like to take note of the fact that our revenue from operations has crossed INR 1 lakh crores in the nine-month period, which we did in the last full financial year. Even on full year basis, only few manufacturing companies in India could achieve this feat.

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

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: Rahul Sir, are there any one-offs in the quarterly results? Given the high retail velocity, what was the per car discount number? I will then follow up on the margins.

Rahul Bharti: No real one-offs as such. The discount in the quarter on wholesales was around INR 23,300 per vehicle. This is against the discount of INR 17,700 per vehicle in Q2 FY23-24. We must keep in mind that this discount is distributed over wholesales, while we give discounts on retail sales.

Pramod Kumar: The margin numbers look interesting because you were close to 11% last quarter, with the best of the utilization and wholesales and despite offering higher discount. Should I presume, some of this should roll off? How should one look at the margin outlook? Is it probable that Maruti's margin band has now moved to a double-digit range?

Rahul Bharti: We never comment on margin outlook. But we can certainly discuss the margin drivers individually. You are aware of the margin drivers. The biggest factor that affects us is the volume. And you would know that in the auto sector, the 4th Quarter is usually a good quarter, because of cyclicity and seasonality.

The second element is stock at dealership. At the end of the calendar year, we try to minimize stock at dealerships. Hence, in quarter 3, retail sales usually exceed wholesale. In quarter 4, you need a healthy stock in the market to recover the stock levels. To that extent, discounting should be optimal. which is a positive for us. We have announced a price increase in the range of about 0.45%, which will also help.

In commodities, steel might show some upward movement. We expect some continuation of the past benefits on movement in PGM, palladium, rhodium, etc. On FOREX, we had gains in Quarter 3 on direct imports and indirect imports happen with a lag. Hence, the benefit should continue in Quarter 4. For direct imports, the rates which are prevalent in Quarter 4 will apply. However, we are dependent on the volume uncertainty of the market, which continues.

Pramod Kumar: Fair enough. The second question is on the retail sales scenario and the inventory situation. We have FADA mentioning alarmingly high levels of inventory in the car industry, predominantly in the small car segment. Where does your inventory stand, at the end of the quarter? What would be the likely month end inventory with your dealers? How has the small car inventory moved over the last few quarters? Can you help us understand the overall inventory situation, especially for the small cars? Since this will have an impact on discount levels going forward.

Rahul Bharti: I won't be making forward looking statements. There's a lot to do with the fine print and the assumptions. Maruti Suzuki had a low and healthy closing stock. The quarter ended with the stock below 45,000 units. We started the New Year light and ready to provide more cars to the dealerships. On the inventories in the market, there is no concern and it's a normal and healthy situation. We have pending bookings of about 215,000 vehicles at the end of Quarter 3.

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

Gunjan Prithyani: Couple of questions from my side. First, expanding on the data that you gave on discounts, can you talk about the retail sales in Quarter 3 FY23-24?

Rahul Bharti: Retail sales in Quarter 3 were much higher than the wholesales. We retailed ~530,000 vehicles, which was a reduction of ~115,000 units from network stock.

Gunjan Prithyani: Okay, got it. Any meaningful change in the royalty numbers? or does it stay in that same range, around 3.7% to 3.8%?

Rahul Bharti: The royalty stands at 3.5% which is 30 basis points lower, sequentially. But this number depends on the new models entering and going out of the discounted royalty rate etc. Hence, this figure keeps hovering between 3.5% to 4.0%.

Gunjan Prithyani: Okay, got it. Now, my question next question is on growth. Going into FY 2025, how should we think about growth? What is the outlook on customer bookings and inquiries? How is the mini and compact car portfolio of Maruti Suzuki continuing to shrink? What is your outlook on industry growth and Maruti Suzuki's growth, given the high exposure of the Company to the mass segment.

Rahul Bharti: Before addressing the growth outlook in next financial year, I should mention that Indian passenger vehicle market is already at a high base. This year, the industry will sell ~4.2 million vehicles. Although not finalized at the CEO level, SIAM has made preliminary sales estimates for next year. According to the preliminary discussion in '16th SIAM Looking Ahead Conclave', in the next year, 4.3 million vehicle sales are expected. Maruti Suzuki intends to grow faster than the industry. You are right, the industry growth could be much better had it not been for the small car segment. The small car segment is shrinking, in both percentage terms and in absolute terms.

Due to regulatory intensity and introduction of too many regulations together, the cost went up suddenly. There is a strong latent customer demand for cars, but it's a function of affordability. In simple economic terms, affordability is the only big hurdle. We think, as the income growth catches up with the increased acquisition cost, small car demand should revive. Hence, we are putting our hopes on the small car segment to come back in future, but not immediately.

Gunjan Prithyani: Okay, got it. The second question I have is on the product side. You have done a lot in terms of plugging the SUV gap in your product portfolio. But are there more white spaces in your product portfolio that you are planning to address in the coming 12-18 months? Maruti Suzuki is not present in the micro - UV segment. Should we expect new product launches in the next 1 to 3 years?

Rahul Bharti: As we have announced, we will have 28 models by the turn of this decade. This means we must develop at least 10 more models. This is in addition to models that need to be refreshed. So, certainly there is a strong model pipeline and of course, the model pipeline must reflect the consumer preferences. We will be where consumers want us to be. One model that I can talk about is our EV, which will enter production in this calendar year. This model will also be exported. But we will be covering all segments that are important from a volume point of view.

Moderator: Thank you. The next question is from the line of Raghunandhan N L from Nuvama Research. Please go ahead.

Raghunandhan N L: Couple of questions Sir. First, the first-time buyer's share has reduced to ~40% from pre COVID levels of ~50%. What is your outlook on triggers for first time buyer demand recovery? And do you see any trends which can trigger this recovery?

Rahul Bharti: A very interesting question Raghunandan. We are analyzing this very carefully. The highest (first time buyer share) we had reached recently was 47% in FY 2021. It went to a low of 38% in Quarter 2 FY 23-24. In Quarter 3 FY 23-24, it inched upwards to 41%. However, it is too premature to conclude whether it's a green shoot of recovery, or it's just noise or a quarter specific phenomenon. Before we come to any conclusion, we would like to see a more sustained trend.

Raghunandhan N L: Got it sir. And my second question is on the order book. You still have a lot of pending orders for CNG automatic vehicles. How are you trying to address these supply constraints?

Rahul Bharti: Okay. The good part is that the semiconductor issue has been resolved. At least in the foreseeable future, we don't have any such issue. Our production capacity, which is ~2 million units per year, might become the next bottleneck. And as you notice, in Q2 FY 23-24, we did sales comparable to our production capacity. We need some headroom in production capacity if we want to attain growth. By March'24, in Manesar, we will have ~100,000 units capacity addition. And we could also utilize Gujarat more. In the year 2025, we should have the first production line of 250,000 units operating at Kharkhoda plant. When there's a ramp up, you don't get full capacity on day one. But that capacity will come. In the short run, there are some minor bottlenecks that are holding up CNG supplies. These issues will get resolved soon.

Raghunandhan N L: Thank you sir. One last question on the upcoming BEV to be launched in 2024. Historically, Maruti has always been providing its customers with the best cost of ownership. Will this be continued in EVs by configuring a dedicated platform and aggressive localization efforts?

Rahul Bharti: See the interesting phenomena about EVs in India, the EV customer profile is quite different than that of ICE. The same parameters are not at the top of an EV customer's mind. Generally, this is a higher segment customer with a charging infrastructure at home. This customer will most likely use the EV to commute to the office and has a predictable usage profile. The first SUV that we are launching in EV space is an upmarket vehicle. It's bigger than the Grand Vitara, it has a high range, almost 550-kilometer, battery capacity of 60 kilowatt hours. We have taken care of customers' range anxiety extremely well. It will be a high spec vehicle. We are hopeful that the customers will receive it well.

Moderator: Thank you. The next question is from the line of Vipul Agrawal from HSBC. Please go ahead.

Vipul Agrawal: My question is on CNG penetration. How is it shaping up in the southern part of the country? There is a strong penetration of CNG pumps in India now. What is the resultant increase in the CNG vehicles? Can you give me both the overall industry situation and Maruti Suzuki's situation?

Rahul Bharti: Development in CGD infrastructure helps increase the CNG penetration. Some new geographies are being added. This is helping CNG sales. We have reached a CNG penetration of 30.8% and we see headroom going further. In some models, the CNG penetration is more than 50%, Ertiga: 57%, WagonR: 50% and Dzire: 44%. Similarly, there are cities with high CNG penetration. Delhi has 47% CNG penetration. Traditionally, Gujarat, Delhi and Mumbai used to be strong CNG markets. But now, Pune has picked up big time. In new cities, where they have reached a critical mass of stations, we find good absorption of CNG. We are in contact with the CGD companies to have joint promotion schemes. Because of these schemes, we can sell more CNG cars. But the CGD companies get to sell CNG fuel across vehicle lifecycle. Hence, CGD companies are quite interested in partnering for joint promotion of CNG vehicles.

Vipul Agrawal: My second question is on the CNG portfolio of Maruti Suzuki. Your models mostly have a single cylinder CNG, while the competition has launched a 2-cylinder CNG variant. This product provides much better boot space. What is Maruti Suzuki's strategy to counter this? Can we expect a similar product from Maruti Suzuki?

Rahul Bharti: It is good feedback. We are closely monitoring consumer insights. There are other technologies in our active consideration, and we are aware of the competitive landscape.

Vipul Agrawal: Thank you. My next question is on the export market. Can you tell us about the export strategy for the next three to five years? What is the new model launch pipeline like? How is the performance of existing models? Are you seeing some challenges?

Rahul Bharti: I'll take your last question first. We are seeing some logistical challenges because of the Red Sea issue. And there may be some increase in costs because of risk or because of rerouting of vessels but it should not be significant. The lead time of dispatches might change and there may be some uncertainty in vessels coming and picking up their consignments, etc. That's a small issue which is quite common in the export business. In the last calendar year, we exported ~270,000 vehicles. This was the highest ever export number for us. We should be able to do better in the coming years. By the turn of this decade, our ambition is to go up to at least 750,000 units in annual exports. Africa is turning out to be a good market. For several reasons, the Middle East region has picked up quite well, recently. The government is also signing some FTAs where we get some relief in duty. With UAE we have an FTA in place. FTA is under consideration with six Gulf countries. Latin America is next. With our EV, we will re-enter Europe and Japan.

Vipul Agrawal: Yes, Sir. Are you expecting any new model launches for exports?

Rahul Bharti: No. Usually, we sell from our existing portfolio. Jimny-3 Door was the only unique model that we were exporting, but not selling domestically. Now we have Jimny-5 Door. The top models in our exports are Baleno, Dzire, Jimny, Swift and Grand Vitara.

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

Amyn Pirani: Two questions from my side. First is a bookkeeping question on margin improvement. On a Y-o-Y basis, the margins have improved, but on a quarter-on-quarter basis, they have declined. Can you highlight 2 to 3 major reasons for the margin movement?

Rahul Bharti: I'll talk about sequential first. I had mentioned in the past, the operating leverage is the largest lever in determining the margin. We lost ~110 basis points on account of operating leverage, since in Quarter 3 we have lower wholesale and more retail. Discounts adversely impacted the margin by ~70 basis points, advertisement was up by ~30 basis points. So, there was a net negative ~210 basis points. On the positive, we gained on FOREX by ~30 basis points, on royalty by ~30 basis points. In commodities, the steel was marginally up, but we gained somewhat on PGM, with a favorable impact of ~10 basis points. So, gain of ~70 basis points. Overall, sequentially on EBIT, we had ~130 basis points fall from 11.2% in Quarter 2 to 9.9% in Quarter 3.

Amyn Pirani: Are you seeing a lot of first-time buyers moving upward from smaller cars like WagonR, Celerio and maybe going straight into micro-SUVs or moving within your portfolio, towards Swift or Baleno?

There is a lot of model launch momentum in micro-SUVs segment, and even more launches are happening on the slightly bigger cars at the entry level. While you still have more than 10-year-old models. Can you comment on this?

Rahul Bharti: These factors affect the small car demand, but not in large part. De-growth in small car demand cannot be explained by just this phenomenon. Otherwise, the total growth of the industry would have been much higher. I could imagine, while there are some customers who are skipping the levels, there are many more customers who are expecting the prices to be more benign and affordable. We had a price point of INR 2.5 lakh for Alto 800. Now, the minimum price at which you can buy a car in India is above INR 4 lakhs. And even at that price point, not much sale happens. So, we are waiting for the income growth in that consumer segment to catch up the price point. After that we can hope for some small car demand revival. These are some relevant numbers; total hatches sold in FY22-23 for Maruti Suzuki were ~945,000 units and it came down to ~836,000 units. The total hatch segment in the industry during the last quarter has come down to ~25%. At the peak, in FY 17-18, this number was at ~47%. So, it's a large shrinkage.

Amyn Pirani: Thank Rahul Sir. If I can just squeeze in a follow up question, if the affordability and the income levels of the first-time buyer improve in 6, 12 or 15 months, do you think the customers will come back to the lower end hatch level? or do you think they will come at the level of upper end hatch and micro-SUV segment? And if they do come at the lower hatch level, will you also need to make some exciting product launches in that segment?

Rahul Bharti: So, it depends on the shape of the consumer pyramid. Whenever such a phenomenon happens, it starts from the upper end and then goes down deeper. That's a natural and continuous progression we have seen. We have some exciting products in that segment. You need a very critical balance of all the parameters that a customer looks for and that is continuously being researched. Infotainment features and SUV like design are some of the larger trends affecting India.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. 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.