Suzuki Motor Corporation

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1. Company Overview

Headquartered in Japan, Suzuki Motor Corporation is a multi-national corporation, primarily engaged in manufacturing and marketing of automobiles. The Group's operations also include motorcycles, marine & power products, motorised wheelchairs, electro senior vehicles and houses. As of Mar 17, the Group consists of consolidated subsidiaries of 136 companies and affiliates of 32 and enjoyed a market share of 31% of Japanese mini vehicles market. The Group is listed on Tokyo Stock Exchange with a ticker name – 7269.

The Group operates in three distinct business segments:

Automobile segment: is engaged in the manufacture and sale of automobiles. In FY16, this segment contributed c.91% and c.96% of the Group's revenues and operating profit, respectively.

Motorcycle Segment: is engaged in the manufacture and sale of two-wheel motorcycles. In FY16, this segment contributed c.6.5% and Group's revenues and reported operating loss of ¥930m.

Marine and Power products, etc: is engaged in the manufacture and sale of outboard motors, the sale of electric vehicles and housing. In FY16, this segment contributed c.2.1% and c.4.7% of the Group's revenues and operating profit, respectively.

2. Key Drivers of the Company's Business

1. **Volume Sales Mix –** The Company has exhaustive portfolio of passenger vehicles which caters the need of customers of various income group. It helps the company to strengthen its business in the diverse market segment. For example – During FY16, increase in the sales of Vitara and Baleno contributed improvement in the sales mix which enabled the company to grow its volume sales in the Europe.

2. **Production Decentralization** – The Company undertakes measures such as decentralisation of production sites to optimise the production system globally. These measures eliminate any potential production bottle necks issues which in turn contribute growth in deriving the revenues seamlessly.

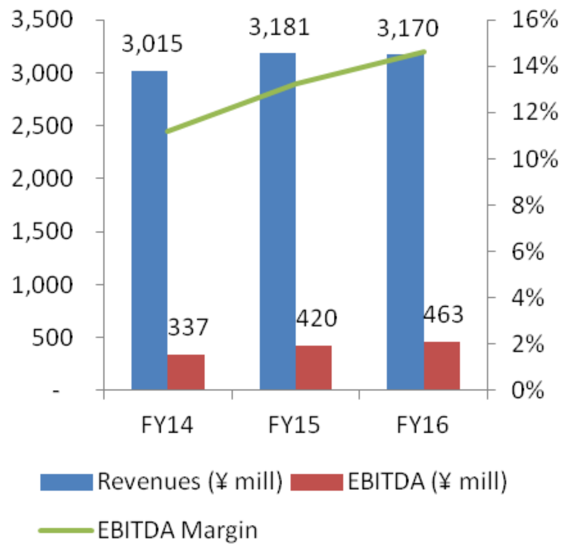
3. **Focus of Compact Cars** – Suzuki is focusing on sales expansion of compact cars to keep the momentum in overall volume growth. During FY16, the sales of compact cars were up by 31.8% to 107,000 units for the first time in the fiscal year.

4. **Consumer Demand –** India is one of the key markets for the company wherein Suzuki Motor Gujarat Pvt. Ltd. (SMG) was established in Ahmedabad Gujarat. The entity started manufacturing Baleno from 1st Feb 2017. SMG is also planning construction of its Gujarat Plant No.2 and Engine & Transmission Plant. Suzuki's total production capacity in India upon completion of Plant No.2 is forecast to reach 2 million units, which will meet growing demand in India's automobile market.

3. Financial Performance –

Financial Analysis of the company is performed based on the FY16 (ended on 31st Mar 2017) to compared with FY15 (ended on 31st Mar 2016).

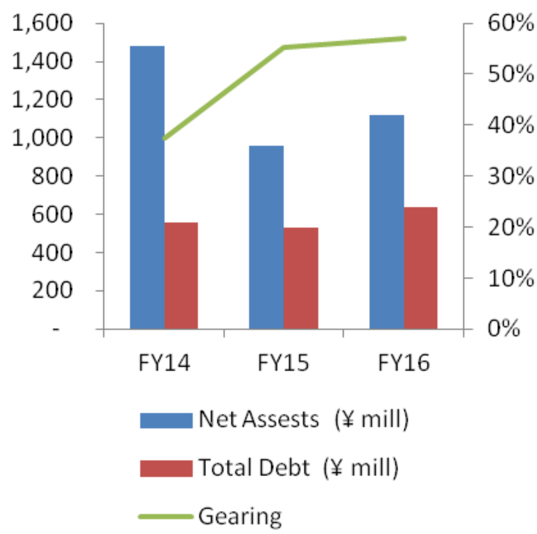
1. Operating Performance –



- Group's turnover declined slightly by ¥11.2bn or 0.3% to ¥3,169.5bn (FY15: ¥3,180.7bn), primarily due to weaker net sales in Japan and North America but were partially offset by higher sales in Europe.
- Gross margin improved by 130bps to 28.6% (FY15: 27.3%) on the back of lower cost of sales.
- EBITDA increased by ¥43.0bn or 10.2% to ¥463.4bn (FY15: ¥420.3) in line with the higher gross profitability and lower operating expenses. Consequently, the EBITDA margin strengthened by 140bps to 14.6% (FY15: 13.2%).
- Higher EBITDA in conjunction with the lower interest expenses (FY16: ¥4.8bn vs FY15: ¥6.4bn) resulted in an improved Interest coverage of 97.12x (FY15: 65.87x).
- PAT for the year stood at ¥159.9bn, up by 37.1% or ¥43.3bn (FY15: ¥116.7bn).

2. Balance Sheet/ Debt Structure/Funding Policy

- As at FYE16, the Group's PPE remained flat to ¥756.3bn (FYE15: ¥757.1bn).
- Current assets totalled ¥1,955.9bn (FYE15: ¥1,632.6bn) along with Investments & Other assets of ¥403.7bn (FYE15:¥312.3bn) reported separately on the Balance sheet.

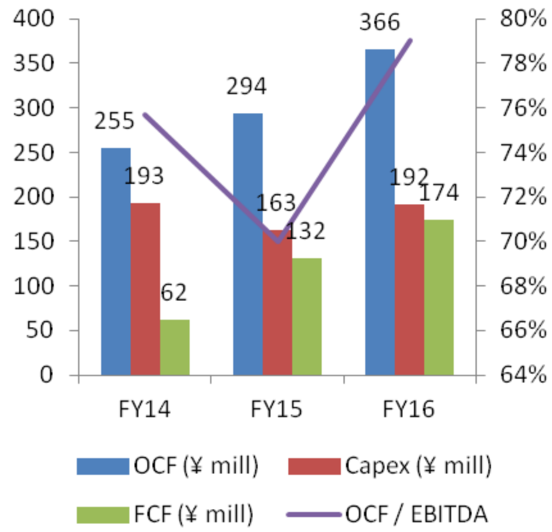


- Total assets increased by 15.3% or ¥413.9bn to ¥3,115.9bn (FYE15: ¥2,702.0bn) due to higher current assets and investments assets.
- Current liabilities totalled ¥1,188.1bn (FYE15: ¥1,145.9bn) including Short-term loans payable of ¥96.3bn, CPLTD of ¥119.9bn, trade payables of ¥428.1bn, and other liabilities.
- As at FYE16, the group had total debt of ¥639.9bn (FYE15: ¥523.3bn). Although, there was an increase in debt levels due to issuance of ¥200.5bn bond, the gross leverage improved to 1.38x (FYE15: 1.26x) due to higher EBITDA.
- Cash & cash equivalents stood at ¥1,032.7bn (FYE15: ¥776.8bn), resulting in a net cash position. Overall, the Group maintained a very prudent capital structure.

- Net assets increased by ¥162.1bn or 16.9% to ¥1,149.5bn (FYE: ¥957.9bn) due to profit retained during the year. Gross gearing increased slightly to 57.1% (FYE15: 55.3%) due to higher proportionate increase in debt levels than in net assets.

3. Quality of Cash Flow

- Cash conversion in the FY16 was robust wherein the net cash increased by ¥163.9bn versus ¥482.2bn decline reported in FY15. Cash from operations increased by 24.6% or ¥72.2bn to ¥366.3bn (FY15: ¥294.1bn) in line with the higher profitability.
- Capex of ¥192.1bn (FY15: ¥162.6bn) resulted in a free cash flow (FCF) of ¥174.3bn (FY15: ¥131.5bn). FCF along with additional borrowing of ¥200.5bn (from issuance of bonds with subscription rights to shares) was used to pay long term debt of ¥63.5bn, short term debt of long term ¥102.9bn, and dividends of ¥24.4bn, among other transactions; resulting in a net positive cash inflow of ¥163.9bn (FY15: negative ¥482.2bn). Consequently, the cash & cash equivalents increased to ¥614.0bn (FYE15: ¥450.1bn).



4. Liquidity position:

- As at Mar 17, the Group had a very healthy Balance sheet with strong cash balance of ¥1,032.7bn. Cash conversion has remained robust and the Group has generated sufficient cash from operations in last five years to meet its Capex requirements.
- The Group manages its liquidity risk by proper planning of its payables and borrowings. As at Mar 17, the Group had a current ratio of 1.65x, which indicates that the current assets sufficiently covers its current liabilities and there is no risk which may jeopardise the operations of the Group due to lack of resources in the near future.
- Debt maturing in next 12-month is ¥216.6bn, which can be sufficiently covered from the existing cash balances on Balance Sheet.
- Further, the group has access to capital market with a strong brand name, which will enable them to raise fund as and when required.

4. Key Credit Risk and Mitigants –

Risks	Mitigants
Economic Slowdown, Demand fluctuation in the market The long term economic slowdown, world economic deterioration and financial crisis, and the reduced buying motivation of the consumers may lead to a substantially reduced demand for the products of the Group. Mitigants:	The local economy which contributes around 30% of the group's consolidated revenues has started recovering moderately on the back of various measures introduced by the government. The Indian economy, an important market for the Group, is expanding mainly owing to increase of domestic consumption.

FY2016 was a tough year for global economy due to concerns about the influence of the policy of US administration, uncertainties prevailing after UK leaving the EU, prospects for the economy of developing countries, and others.	Further, the Group is judiciously deploying its resources in the growing automobile markets like India to counteract the slowdown in developed economies. The group is also focussing on developing Indonesia and Thailand as pillars that follow Japan and India, to place them as the production base for inside and outside ASEAN.
Intense completion and new product development Group faces severe competitions with rival companies in every global market where they conduct their businesses. Competitions with other companies include various aspects such as product quality, safety, price, environmental performance, as well as efficiency of product development and manufacturing system, establishment of sales and service systems and sales finance.	Group has maintained its market share in its key markets by its unique value proposition of value for money and excellent fuel efficient vehicles for its customer. Further, the Group has been able to introduce new models and new variants in a timely manner, for ex- launched in 2016 in Indian market, the Vitara Brezza was very well received in the market and subsequently won the Indian car of the year in 2016; Ignis made its European premiere at the Paris Motor Show in Sept 2016 and it later went to be selected as a finalist for the 2017 World Urban Car category at the World Car Awards in March 2017. The Group has planned active investments for future growth, which includes accumulated capital investment of ¥1.0bn and research and development expenses of ¥200bn for FY2019. The Group also aims to Introduce 20 new models globally in five years.
Fluctuations of Exchange Rate 70% of the Group's consolidated revenues are derived from overseas market; hence, the Group is susceptible to fluctuations in the foreign currencies. Also, since the Group procures a major part of fund in Japan where interest rates continue to be low, it is susceptible to changes in the interest rates.	Group take hedging measures such as forward exchange contracts and decentralisation of production sites to optimise the production system globally to reduce the risks of exchange rates and interest rates fluctuations, but it is impossible to hedge every risk.
Government Regulations Various legal regulations are applied to the	Group has already established a compliance system to prevent violation of laws and regulations and respond quickly to various

automobiles, motorcycles and outboard motor industries in relation to the emission level of emission gas, mileage, noises, safety and contaminated material emission level from the manufacturing plants. These regulations may be revised, in many cases strengthened. Expenses to comply with these regulations may largely affect the performance of the Group.	issues related to compliance.

5. Future Outlook –

The company has better placed itself in meeting its future goals attributed to sustained and comprehensive measures put in place as highlighted in the flowing points –

1. Suzuki has implemented new Mid Term Management Plan "Suzuki Next 100" from (FY15 to FY19) wherein it is targeted to achieve ¥3.7bn by FY19 thorugh the sale of 3.4bn automobiles, 2m motorcycles.
2. Under the New Mid-Term Management Plan (from FY2015 to FY2019) SUZUKI NEXT 100, the Company plans active investments for future growth, which includes accumulated capital investment of 1 trillion yen and research and development expenses of 200 billion yen for FY2019. At the moment, the Company prioritises investment for growth centred in India, and set the dividend payout ratio target to 15% or more.
3. The company has planned to establish a joint venture company between Suzuki, Toshiba, and Denso with the participation ratio of Suzuki 50%, Toshiba 40%, Denso 10% and it will involve capital expenditure of ¥20 bn. The Jv will promote sustainable cars in India Contribute to "Make in India" initiative by the Indian Government and will introduce sustainable technology suitable for affordable cars to realise stable supply of lithium-ion battery packs in India.

6. Rating Rationale –

We would recommend a strong rating of 10 (on a scale of 1 to 10, 1 being the lowest) after considering the points discussed above. The rating encapsulate the overall profile of the entity in terms of credit worthiness, funding sources, financial performance, serviceability and maturities of various debt obligations undertaken. In addition, the company also has the commitment line contract with six banks for effective financing to meet any funding needs which ensures smooth operations of the business.