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The Auto Sector & Suzuki Moto Corp

Value in the eye of the beholder

**Asian Investing Summit 2018,
Hosted by MOI Global**



Auto turmoil

- Electrification
- Autonomy
- Ride hailing / Sharing (Uber / Lyft / Ola)
- Business model innovation

(Check out Tony Seba on YouTube)

Headline numbers (March 12, 2018)

Market Cap

- General Motors \$ 52.98 B
- Tesla \$ 58.07 B
- Maruti \$ 40.70 B
- Suzuki (Japanese company) \$ 26.32 B

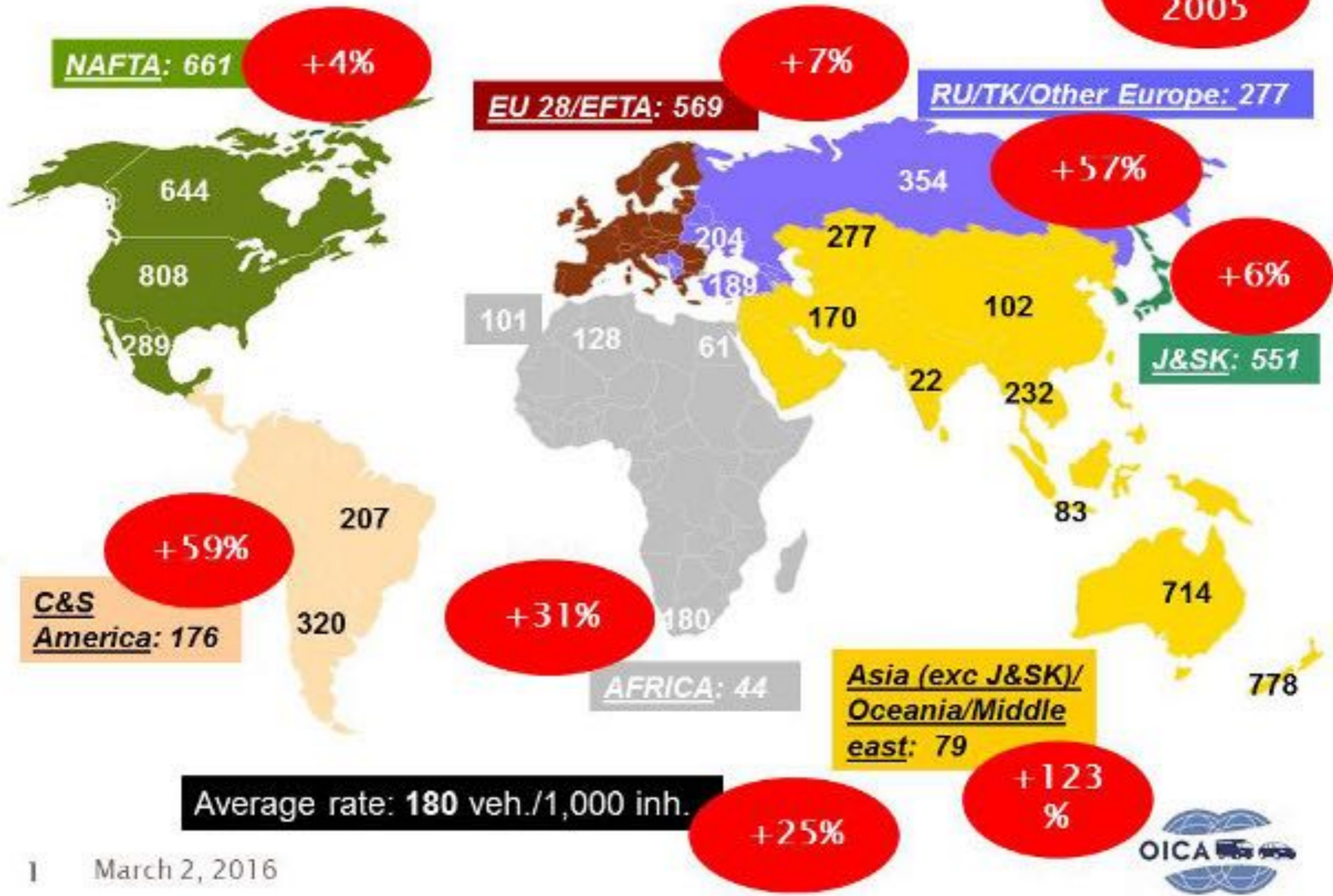
Investment hypothesis

- More cars will be bought and sold in India in the years to come (volume growth)
- Maruti Suzuki will be a part of the future Indian auto landscape
- Manufacture of battery cells will not be a pre-requisite to be an auto manufacturer
- Suzuki a “no-brainer” as compared to Indian listed Maruti to participate in the Indian Auto Sector

1. Volume Growth

X. Motorization rate 2014

Versus 2005



India

Personal Transportation

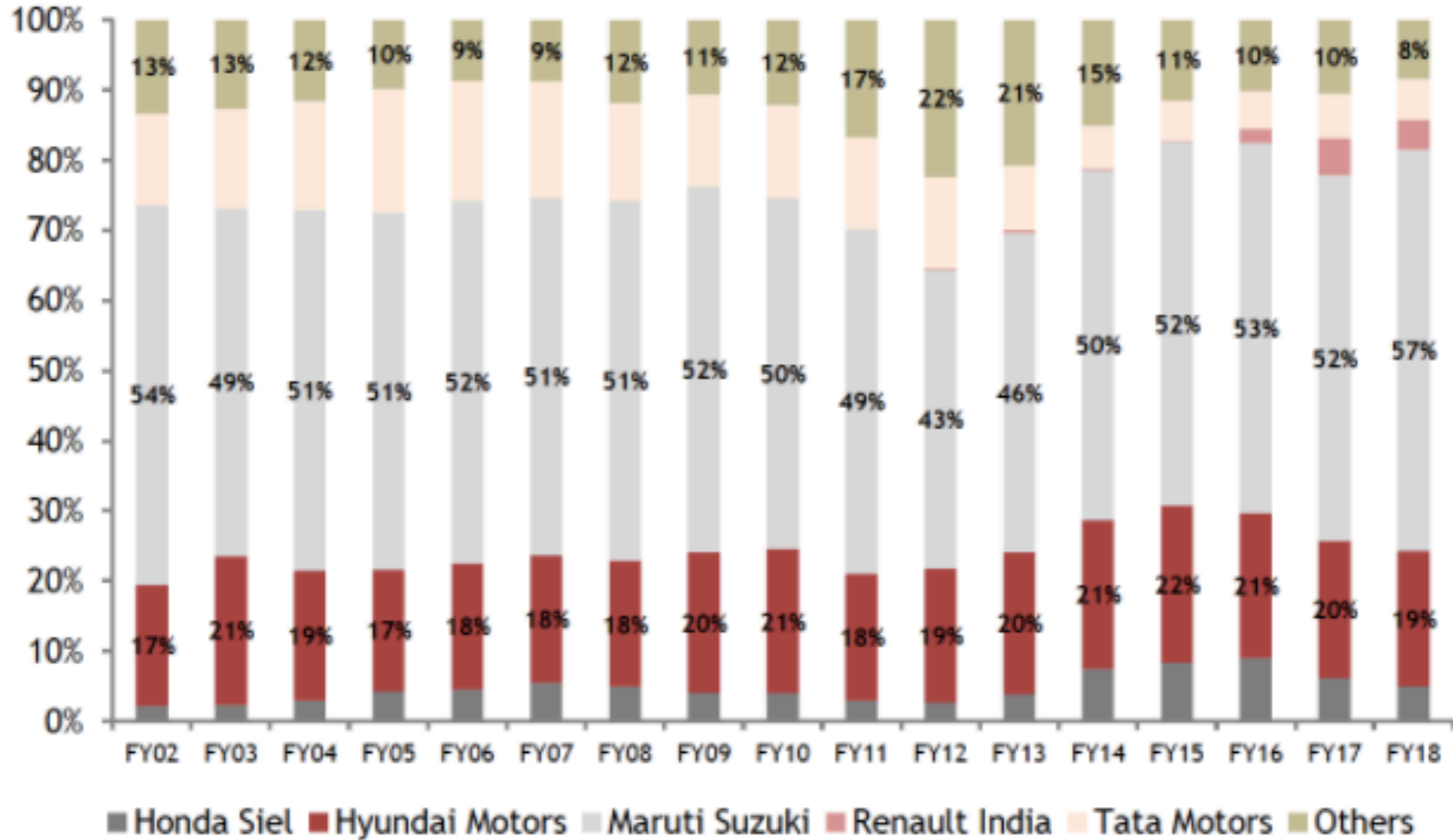
- The number 22 refers to Cars
- Including two wheelers, the number would be close to 130

Ride hailing / sharing

- Increasing accessibility (people who could not afford a car ride can get one).
- Gains over 3 wheeler / 2 wheeler rides
- Woefully inadequate public transportation
- Rising affluence & aspiration
- 2017 sales growth of 9.2% for the sector

**2. Maruti Suzuki will be
part of the landscape**

OEM Market Share data



Indian graveyard for foreign brands

- GM, Ford, Toyota, Volvo, Volkswagen etc. have had a lacklustre performance in India
- PV market share of GM, Toyota, Ford and Volkswagen fell from 17% in FY12 to 7% in FY17
- GM has exited after years of trying
- Past market share fall was on account of Diesel which has been recouped

What do they get right?

- Great Value For Money
- Indigenisation - manufacturing in India gives great cost and scale advantages (chicken and egg for foreign / newer players)
- Right hand drive (+ indicator on right side, air bags not required,.....)
- Dealership and service network, reliability
- “True Value” outlets, higher resale value
- Using entry level advantages to win in the premium segment
- Real Estate

Arguably first off the block
in the Indian context for
large scale EV entry

**3. Requirement to
manufacture battery
cells?**

Tesla vs GM / Nissan

- Is it mandatory to have giga factories?
- Does a phone manufacturer have to make its own memory chips, processors, batteries, screens?
- Vehicle design, safety, servicing, ancillary supply chain may still be relevant.

Hypothesis, current auto makers will not go into oblivion and GM, Nissan, Suzuki etc will still be around

4. Investing in the Indian Auto space

Maruti Suzuki

- Profit more than 3 X in 4 years (CAGR of 34%)
from FY 2013 to FY 2017
- Great ROE & other financial metrics
- Shift towards premium segments
- 10% plus volume growth
- Waiting list for cars, ramping up production but stock expensive at 35 X earnings

Suzuki Motor Corporation

- Owns 56.21% of Maruti Suzuki
- Gets Royalty from Maruti Suzuki
- Maruti Suzuki does NOT include
 - Royalty income
 - Motorcycles / Marine
 - Gujarat plant Battery unit and Export unit

Other than Maruti Suzuki

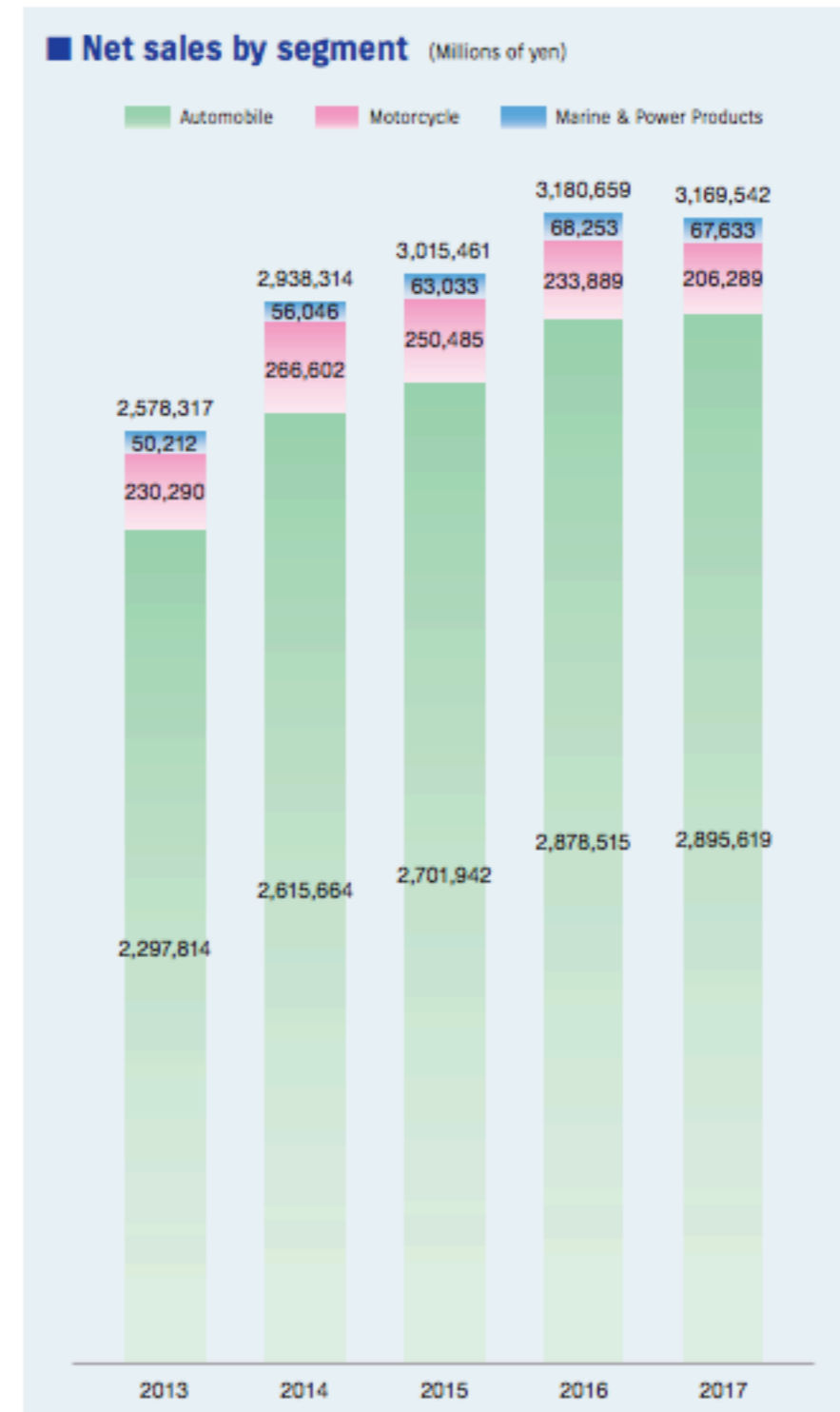
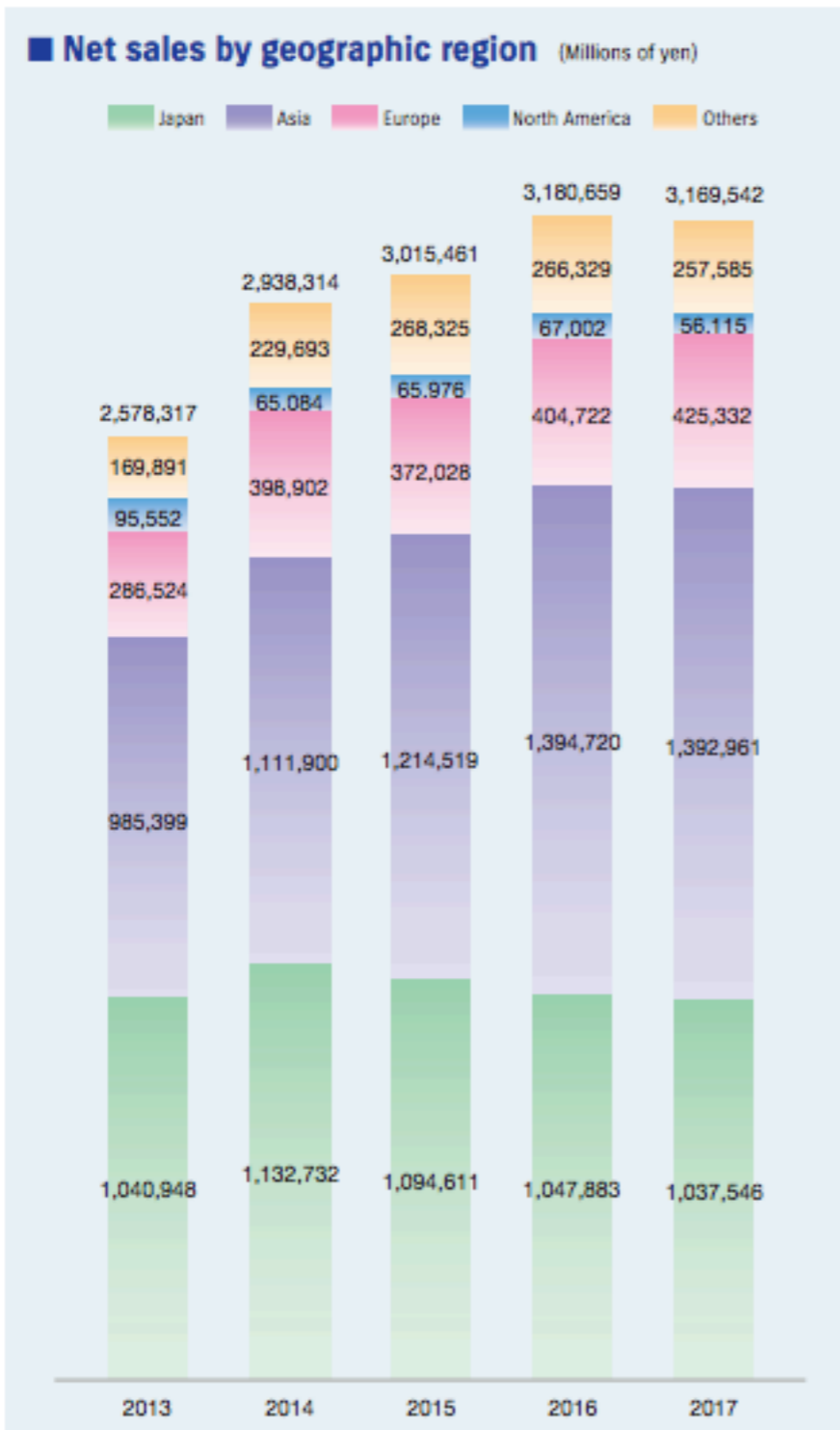
- Key markets apart from India
 - Japan
 - 5 ASEAN countries (Indonesia, Thailand, Vietnam, Philippines and Malaysia)
 - European Union
 - China
 - Other markets (Say Pakistan)
- Products
 - Automobile
 - Motorcycles
 - Marine and Power Products

Suzuki Valuation

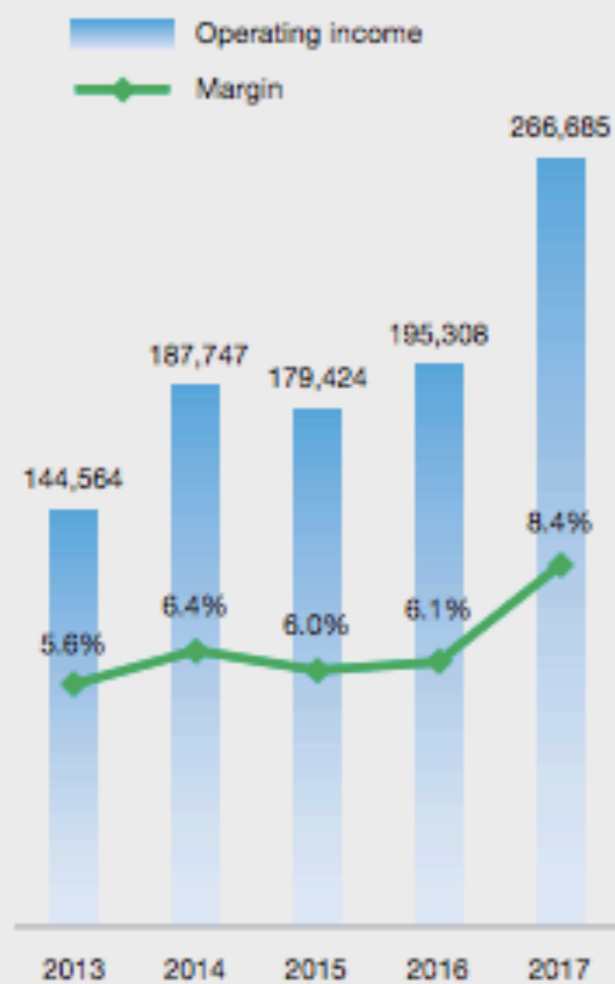
- Approach A (independent valuation of Suzuki)
 - Suzuki Market cap \$ 26.32 billion
 - PAT (March 2017) \$ 1.65 Billion of which \$ 1.05 billion attributable to India (PAT share \$ 0.64 billion plus Post Tax Royalty of \$ 0.41 billion)
 - About 2/3 of profits come from India operations
 - TTM PER of ~ 13.50
- PAT has almost doubled in 4 years from FY 2013 to FY 2017 - ¥ 80.39 billion to ¥ 159.96 billion (18.76% CAGR)

Financial Highlights

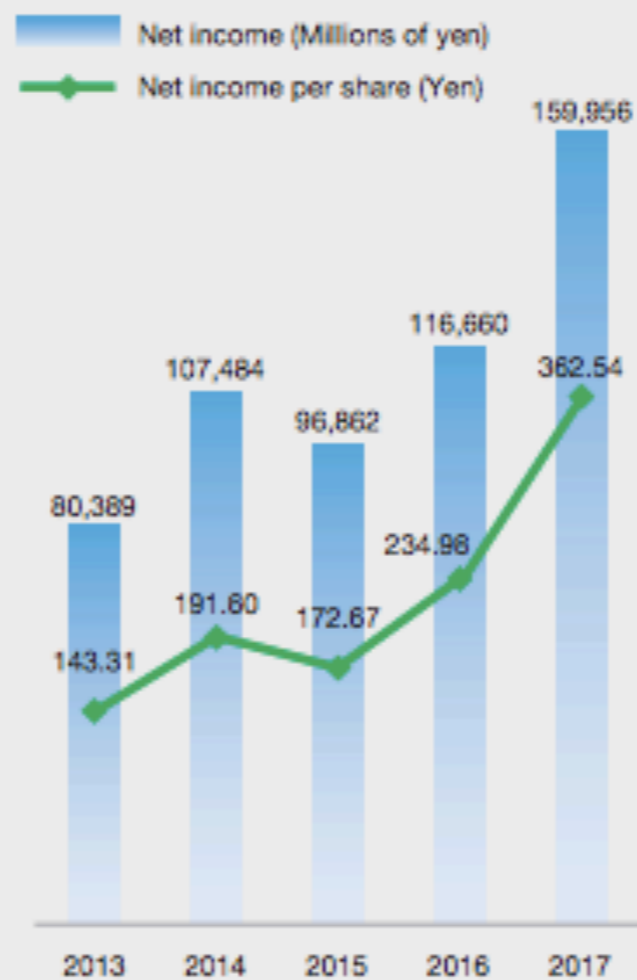
Years ended 31 March



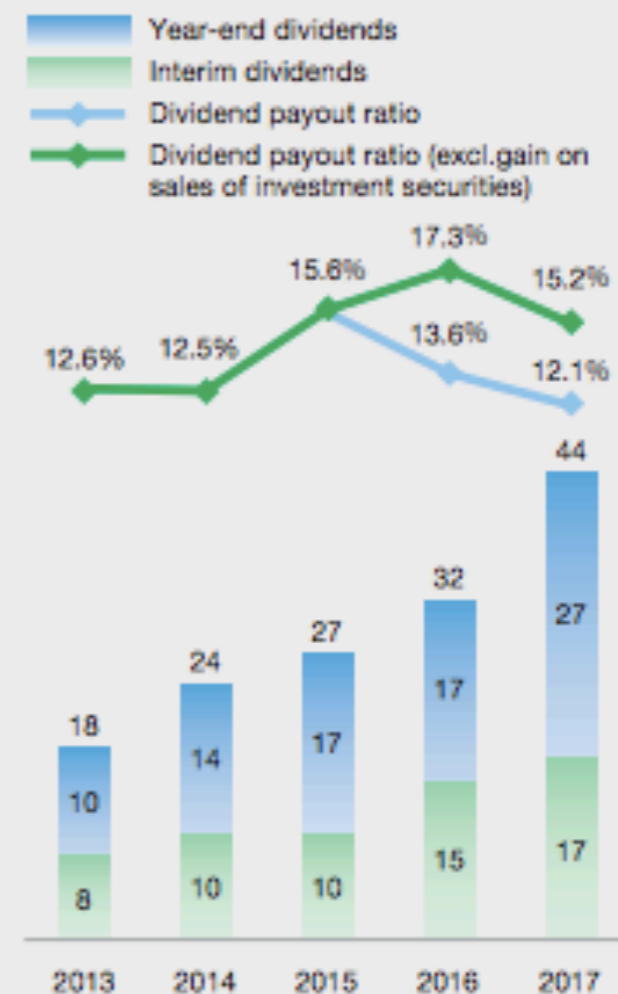
■ Operating income (Millions of yen)



■ Net income attributable to owners of the parent



■ Dividends (Yen)



Suzuki Valuation

- Approach B (proxy to holding Maruti)
 - Suzuki Market cap \$ 26.32 billion
 - Value of Maruti Stake \$ 22.88 billion
 - Net value \$ 3.22 billion (Royalty income plus Gujarat plant plus global car business plus motorcycles, marine and power)

Thank you

Questions / Comments?