Suzuki Motor Gujarat Private Limited

June 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	2,600.00 (Reduced from 2,900.00)	CARE AAA; Stable/ CARE A1+	Reaffirmed
Short-term bank facilities	50.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) considered completion of equity stake acquisition of Suzuki Motor Gujarat Private Limited (SMG) by Maruti Suzuki India Limited (MSIL) in November 2023. Prior to November 24, 2023, SMG was a wholly owned subsidiary of Suzuki Motor Corporation, Japan (SMC). However, post-acquisition, SMG became a wholly owned subsidiary of MSIL, a 58.19% subsidiary of SMC. As a result, SMC continues to be the ultimate parent.

Ratings assigned to bank facilities of SMG continue to derive strength from its Contract Manufacturing Agreement (CMA) with MSIL, under which, vehicles manufactured by SMG are currently sold exclusively to MSIL inclusive of all costs, resulting in significantly low saleability risk for the company. Ratings also derive strength from strong financial risk profile of MSIL, SMG's sole off-taker and holding company and its dominant market position in the Indian passenger vehicle (PV) market. Ratings further derive strength from parentage of SMC, the ultimate parent company, which is one of the leading automobile companies in the world and technological assistance MSIL and SMG derives from it, on account of the access to SMC's wide product portfolio of Suzuki brand of automobiles. Ratings also factor its locational advantage due to proximity to ports and fiscal benefits available under the "Mega Project" status of Government of Gujarat (GoG). Until now, SMG's entire capex requirement was funded through infusion of equity capital by SMC and internal accruals of SMG. Going forward, availability of strong liquidity with MSIL provides additional comfort for funding of future projects.

These credit strengths continue to far outweigh SMG's susceptibility to slowdown in demand for MSIL's vehicles, considering intense competition in the Indian PV segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable.

Negative factors

- Significant deterioration in the credit profile of MSIL and/ or SMC, its ultimate parent company.
- Non-adherence to the terms of the contract by either party adversely impacting the current strong risk profile of SMG.
- Any inordinate delay in receiving financial support from its parent, MSIL.

Analytical approach: Standalone along with strong linkages with MSIL and SMC.

While assessing the company's credit risk profile, CARE Ratings has primarily considered the standalone credit profile of SMG along with its strong operational and financial linkages/synergies with MSIL, its holding company and sole off-taker. Ratings also take cognisance of the common parentage of SMC, Japan.

Outlook: Stable

CARE Ratings believes that SMG shall continue to benefit from strong operational linkages with MSIL. The company is likely to maintain its strong financial risk profile with no reliance on external debt despite large capex plans.

Detailed description of key rating drivers:

Key strengths

Exclusive contract manufacturing agreement with MSIL with full pass-through of cost

The vehicles manufactured by SMG are being supplied exclusively to MSIL under a CMA. Under the agreement, SMG shall implement, develop and operate vehicle manufacturing facilities to manufacture vehicles economically by improving productivity and implementing cost-saving initiatives. Furthermore, SMG operates on no-profit-no-loss principle, where the entire cost of production (including interest) of SMG is borne by MSIL. However, SMG is entitled to retain non-operating income arising from investment of its capital surplus funds, which includes plough back of non-cash item such as depreciation. This is expected to provide additional comfort to SMG's operations as the same could be available for meeting contingencies. SMG is to continue manufacture vehicles and parts and supply them to MSIL on no-profit-no-loss principle till July 31, 2024, or such later date as

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

mutually agreed by both companies. Being a wholly owned subsidiary of MSIL along with its positioning as strategic importance to MSIL, SMG is expected to continue get benefit of parentage of MSIL and SMC.

Leading market position of MSIL in the PV segment in India

Incorporated in 1981, MSIL is the market leader of passenger vehicles in India. MSIL continues to hold a dominant position in the domestic market with around 44% market share (source: CMIE) in overall PV segment in FY24 (refers to April 01 to March 31), despite increasing competition from other established players. MSIL also continued to be top exporter for PV in India with exports of 13% of its total sales despite overall exports reducing by around 4% in FY24. MSIL's cumulative manufacturing capacity stands at around 23.50 lakh units per annum (p.a.) across its two own manufacturing facilities at Gurgaon and Manesar, in Haryana, along with manufacturing facility of SMG.

MSIL continues to launch new models and variants for existing models to maintain its leadership position. The sports utility vehicle (SUV) contribution to overall PV market has grown from 24% in FY18 to around 60% in FY24 per industry data. MSIL has a market share of more than 65% in the non-SUV segment with comparatively low penetration in the SUV segment. However, post the successful launch of SUV models viz. New Brezza, Grand Vitara, Jimny, Fronx and Invicto in the last couple of years, MSIL's share in the SUV segment increased to around 25% in FY24 (FY23: 18%). Going forward, with further strengthening of its SUV product portfolio in line with industry trends with new model launches and increased sales traction of current models, is expected to increase MSIL's share.

Enhancement of distribution network and production capacity (through SMG), launch of loyalty programmes, and consumer-friendly finance schemes is expected to help MSIL to maintain its leadership position in passenger vehicle even as competition intensifies. CARE Ratings expects MSIL to maintain its leadership position in non-SUV segment, while its market share in the SUV segment is likely to grow with the recent launches of Jimny, Fronx and Invicto.

Strong financial risk profile of MSIL, sole customer and parent of SMG

In FY24, MSIL's total operating income (TOI) witnessed a growth rate of around 20% over FY23 on a consolidated basis. MSIL's domestic and exports sales volume both grew by 8% and 9% respectively in FY24, largely supported by good demand for new launches in the SUV segment (Grand Vitara, Fronx, Jimny) and growth in sales of CNG vehicles. Its operating profitability margin also improved at 13.06% in FY24 (FY23: 11.06%), primarily on account of favourable commodity prices and healthy capacity utilisation levels amidst improved product mix. MSIL had cash and investments to the tune of ₹56,000 crore as on March 31, 2024, reflecting its very strong liquidity. CARE Ratings expects that MSIL's credit profile is likely to remain very comfortable with negligible debt and superior liquidity available in the form of current investments and cash and bank balances along with negative operating cycle.

Strong parentage of SMC, ultimate parent company, which also provides technical support

Incorporated in 1920, SMC is Japan's fourth-largest automobile manufacturer and is among the top automobile manufacturers in the world by production volume. Currently, SMC's product portfolio includes passenger cars, motorcycles, out-board motors for marine applications, electric vehicles and industrial equipment, where around 90% is contributed by the automobiles segment. SMC has its presence in India through MSIL (58.19% subsidiary of SMC), where MSIL is a major contributor to SMC's consolidated revenue.

In the last few years, MSIL contributed around 40-45% of SMC's total consolidated revenue underlining MSIL's strategic importance (and consequently SMG) for SMC's overall growth prospects. In FY24, SMC's TOI witnessed a growth rate of 16% (in local currency - Yen) over FY23 supported by increased volume and improved pricing. SMC registered a volume growth of 11% on a y-o-y basis and sold nearly 31 lakh vehicles in FY24 supported by healthy demand from Europe, Indian and domestic markets, which was partially off-set by decline in sales volume from other Asian markets. Furthermore, SMC's financial risk profile remained comfortable marked by steady profitability, comfortable leverage and debt coverage indicators, and strong liquidity.

SMG leverages on its association with its parent, MSIL and its ultimate holding company, SMC, in terms of product development, technological expertise, and access to a wide product range. Furthermore, entire capex for establishment of its assembly plants Line A, Line B and Line C and its powertrain plant was funded through equity infusion by SMC and internal accruals of SMG, underlining its support to SMG. Post acquisition of equity stake by MSIL, SMG shall benefit from strong technical and financial capabilities of MSIL.

Large capex plans with no reliance on external term debt

SMG successfully implemented the project of establishing three assembly lines (Line A, Line B and Line C) for automobile manufacturing with an aggregate capacity of 7.5 lakh vehicles p.a. and powertrain manufacturing facility under Phase-I & Phase-II each with an aggregate capacity of 5.0 lakh units p.a. Further, SMG completed construction of powertrain Phase - III manufacturing facility of another 2.5 lakh units in FY24. Post this, presently, the capacity of its entire powertrain is consistent with its total assembly line capacity.

SMG has aggregate capex plans of around ₹8,500 crore for the next 3-4 years ending FY27-FY28. Of this, around ₹3,500 crore is envisaged towards setting up of a new assembly line viz. Line D for Battery Electric Vehicle (BEV). This line is currently under designing phase and is expected to be commissioned from August 2026 (FY27). Balance capex is towards various moulds for new models and routine maintenance capex of existing infrastructure. Entire capex envisaged is expected to be funded from available liquidity and internal accruals and no term debt is expected to be availed in the medium term for the same. Additionally, availability of strong liquidity with MSIL provides comfort for funding of any future projects, if required.

Locational advantage and fiscal benefits available under 'Mega Project' status of Government of Gujarat (GoG)
SMG's automobile manufacturing plant is in Gujarat, which has close proximity to several major ports on the western coast of the country. This provides logistic advantage on account of savings in outward freight costs, especially for exports. Even within India, western and southern markets can be catered through cars manufactured by SMG on account of its favourable location compared to MSIL's existing plants in Haryana.
Furthermore, in June 2012, MSIL had signed a State Support Agreement (SSA) with GoG, where GoG would provide various fiscal and non-fiscal benefits to MSIL, while MSIL has committed investment in automobile manufacturing facility along with employment generation in the state. Subsequently, MSIL had assigned all rights under the SSA to SMG with prior approval of GoG. Under the SSA, SMG is eligible for 100% reimbursement on State Goods and Services Tax (SGST) for vehicles sold in Gujarat up to a maximum period of 15 years subject to 100% of its eligible investment in fixed assets. Moreover, GoG has also agreed to provide all required infrastructure under different government schemes for implementation and operations of SMG's plant. SMG continues to receive this fiscal benefit under the 'Mega Project' status of GoG.

Stable demand outlook for Indian PV industry with shifting preference over utility vehicles
The Indian PV industry registered a milestone with sales of four million units in FY24, while maintaining its position as the third largest PV market in the world. The PV market grew by around 8% in FY24 as against FY23 largely on the back of new SUV launches and improved semiconductor availability. The mini and compact cars segment came under pressure in FY24 with increase in prices of such vehicles owing to increased production costs amidst higher overall inflation. Since last few years, there has been an increase in sales of SUVs. This trend continued in FY24 as well, with SUVs contributing around 60% of the domestic market sales. UVs are becoming increasingly popular among domestic consumers with rising disposable income and evolving preferences. The segment further witnessed the benefit of a good order book and new product launches in FY24. CARE Ratings expects this growth momentum to continue in FY25, driven by a solid order book, enhancements in the supply chain, a strong demand for new model launches, and an increasing shift towards the UV segment.

Liquidity: Strong
SMG had outstanding cash and bank deposits amounting to ₹4,756 crore as on March 31, 2024 (₹4,009 crore as on March 31, 2023), to meet its capex and operational requirements reflecting its strong liquidity. SMG's operating cycle remained negative, as the company enjoys 30-40 days of credit from its suppliers, while it receives advance payment from MSIL for the basic price of the vehicle, minimising fund-based working capital requirement. Utilisation of its fund-based working capital limits remained zero, while it utilises non-fund-based limits mainly for import of capital goods where average non-fund-based limits outstanding as on March 31, 2024, stood at a very nominal level of 7%. Furthermore, as entire capex envisaged is expected to be funded through available liquidity and internal accruals, there is no term debt repayment obligation, which also supports SMG's liquidity. Its liquidity is further underpinned by virtue of being a wholly owned subsidiary of MSIL and evidently SMC, which has a strong credit profile.

Key weaknesses
Increasing competition in passenger vehicles segment
The Indian PV market remains highly competitive with entry of new players in the market and launch of new models by both new as well as incumbent players. With more players and models, competition is expected to intensify further, as market shares in the PV segment is highly correlated with product lifecycles. MSIL's product pipeline kickstarted with line-up of launches in the last three years. MSIL successfully launched new Celerio and the new age Baleno in FY22. Further, post the success of recently launched SUV models, viz., New Brezza and Grand Vitara in FY23, MSIL launched other new models in SUVs, viz, Jimny, Fronx and Invicto in FY24 which aided in improving its product mix. Going forward, MSIL's ability to regain and increase its market share in the competitive PV industry would remain key monitorable. As SMG acts as a contract manufacturing arm of MSIL, its prospects are intricately linked to that of MSIL and thereby it cannot remain insulated from any challenges faced by MSIL.

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]
[Factoring Linkages Parent Sub JV Group]

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Automobile and auto components	Automobiles	Passenger cars & utility vehicles

Incorporated in March 2014, SMG is a wholly owned subsidiary of MSIL from November 24, 2023. SMG has been set up to establish and operate manufacturing facility to produce passenger vehicles for MSIL. SMG has set up three assembly lines (Line A, Line B and Line C) with a capacity to produce 250,000 vehicles p.a. each and powertrain manufacturing facility, entirely funded through equity infusion by SMC and internal accruals of SMG. The land for establishing SMG's plant has been leased to it by MSIL. MSIL holds nearly 640 acres of land in northern Gujarat, of which, it has presently leased 390 acres to SMG for establishing its manufacturing facilities. Furthermore, the vehicles manufactured by SMG is supplied exclusively to MSIL under a contract manufacturing agreement entered between SMG and MSIL on December 17, 2015.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)
Total operating income	31,852	39,414
PBILDT	1,985	2,163
PAT	54	78
Overall gearing (times)	0.00	0.00
Interest coverage (times)	Very High	Very High

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	500.00	CARE AAA; Stable/ CARE A1+
Fund-based - ST-Bank Overdraft	-	-	-	-	50.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	2100.00	CARE AAA; Stable/ CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - LT/ ST-BG/LC	LT/ST	2100.00	CARE AAA; Stable/ CARE A1+	-	1)CARE AAA; Stable/ CARE A1+ (09-Aug-23) 2)CARE AAA; Stable/ CARE A1+ (27-Jun-23)	1)CARE AAA; Stable/ CARE A1+ (05-Jul-22)	1)CARE AAA; Stable/ CARE A1+ (30-Jun-21)
2	Fund-based - ST-Bank Overdraft	ST	50.00	CARE A1+	-	1)CARE A1+ (09-Aug-23) 2)CARE A1+ (27-Jun-23)	1)CARE A1+ (05-Jul-22)	1)CARE A1+ (30-Jun-21)
3	Fund-based - LT/ ST-Working Capital Limits	LT/ST	500.00	CARE AAA; Stable/ CARE A1+	-	1)CARE AAA; Stable/ CARE A1+ (09-Aug-23) 2)CARE AAA; Stable/ CARE A1+ (27-Jun-23)	1)CARE AAA; Stable/ CARE A1+ (05-Jul-22)	1)CARE AAA; Stable/ CARE A1+ (30-Jun-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working Capital Limits	Simple
2	Fund-based - ST-Bank Overdraft	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated: Not applicable

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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