



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↓	■

Reco/View

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 8,160	
Price Target: Rs. 9,000	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

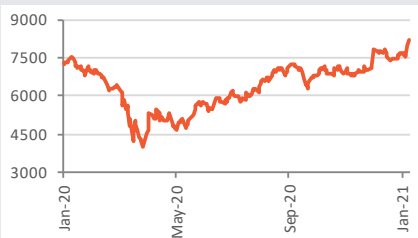
Company details

Market cap:	Rs. 2,48,794 cr
52-week high/low:	Rs. 8,290 / 4,002
NSE volume: (No of shares)	11.9 lakh
BSE code:	532500
NSE code:	MARUTI
Free float: (No of shares)	13.2 cr

Shareholding (%)

Promoters	56.4
FII	21.9
DII	16.7
Others	5.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.9	16.6	36.3	13.9
Relative to Sensex	0.0	-5.0	0.7	-4.9

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Maruti Suzuki Limited (MSL) with a revised PT of Rs. 9,000, factoring better multiples owing to resilient near-term outlook, structural growth outlook, healthy cash flow generation, and return ratios.
- MSL is likely to be the beneficiary of buoyant demand in the passenger vehicle (PV) segment, driven by rising demand in tier 2 and 3 cities and rural areas. MSL is expected to sustain its dominant market share, aided by its strong product portfolio and positioning, brand appeal, and ability to launch new models frequently.
- We expect MSL's earnings to grow strongly by 44.5% and 19.5% in FY2022E and FY2023E, respectively, driven by 20.7% revenue CAGR (FY2021E-FY2023E) and 300 bps improvement in EBITDA margin.
- The stock is valued at P/E multiple of 25.8x and EV/EBITDA multiple of 17.4x its FY2023 estimates. We have revised our PT to Rs. 9,000. We maintain our Buy rating on the stock.

Maruti Suzuki Limited (MSL) is witnessing strong recovery in sales volumes and is likely to have flat y-o-y sales volume growth in FY2021E, despite a 36.6% y-o-y decline in H1FY2021. We expect Q3FY2021 to be a strong quarter for MSL, with earnings expected to grow 35% y-o-y at Rs. 2,112 crore, driven by 13.4% growth in revenue and 135 bps y-o-y at 11.5%. Demand in the passenger vehicle (PV) segment remains buoyant even after the festive season. We expect MSL to register strong volume growth going forward, driven by new product launches, quick economic recovery, upside from COVID-19 vaccines, and low base. Despite intense competition in the PV segment, we believe MSL will be able to sustain its dominant market share, aided by its strong product portfolio and position, brand appeal, and ability to launch new models frequently. Moreover, the company is likely to be the beneficiary of buoyant demand in the PV segment, driven by rising demand in tier 2 and 3 cities and rural areas. MSL's strongest distribution network in the segment and rural penetration are likely to drive strong revenue growth going forward. MSL's volumes are expected to recover from FY2022 with expectations of strong double-digit growth, aided by robust exports as well. MSL would benefit from operating leverage, driven by robust volume growth. We expect MSL's earnings to grow strongly by 44.5% and 19.5% in FY2022E and FY2023E, respectively, driven by 20.7% revenue CAGR (FY2021E-FY2023E) and 300 bps improvement in EBITDA margin. In addition, the company would continue to focus on cost-control initiatives such as increasing localisation levels and improvement in operational efficiencies. We expect MSL's EBITDA margin to retract back to more than 12% by FY2023. As a result, we expect RoCE to improve to 18.3% in FY2023E from 13.6% in FY2020. Moreover, core earnings (excluding earnings from the non-core business) are expected to post a 60.1% CAGR during FY2021E-FY2023E.

Our Call

**Valuation - Maintain Buy with a revised PT of Rs. 9,000:** MSL is witnessing strong recovery in domestic demand with sales volumes sustaining growth in the post-festive season. Sales enquiry is strong even after the festive season, underpinning our view of genuine demand in the PV segment. We expect strong recovery from FY2022, driven by normalisation of economic activity. Margins are expected to improve, driven by operating leverage and cost-control measures. We have valued the stock by assigning 15% premium to average long-term P/Core EPS multiple on MSL's FY2023E earnings and valuing cash and equivalents at 1x to arrive at a revised PT of Rs. 9,000. In our view, premium valuations are justified, given the near-term demand outlook, structural growth outlook, healthy cash flow generation, and return ratios. The stock is attractively valued at P/E multiple of 25.8x and EV/EBITDA multiple of 17.4x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 9,000.

Key Risks

Key raw-material prices have surged steeply since the past six months in the range of 30%-50%. MSL has taken price hikes to mitigate the impact of high input costs this month. However, if raw-material prices continue to rise in the same pace in the near term, the company may not be able to pass on the cost to customers and profitability can get impacted.

Valuations (Consolidated)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net sales	86,020	75,611	71,938	90,083	104,746
Growth (%)	7.8	(12.1)	(4.9)	25.2	16.3
EBITDA	10,999	7,303	6,882	10,719	13,209
EBIDTA %	12.8	9.7	9.6	11.9	12.6
PAT	7,501	5,651	5,536	8,001	9,561
Growth (%)	(2.9)	(24.7)	(2.0)	44.5	19.5
FD EPS (INR)	248.3	187.1	183.3	264.9	316.5
P/E (x)	32.9	43.6	44.5	30.8	25.8
P/B (x)	5.3	5.1	4.7	4.3	3.8
EV/EBITDA (x)	21.9	33.6	35.5	22.7	18.3
RoE (%)	16.3	11.7	10.6	13.8	14.8
RoCE (%)	20.7	13.6	12.8	17.1	18.3

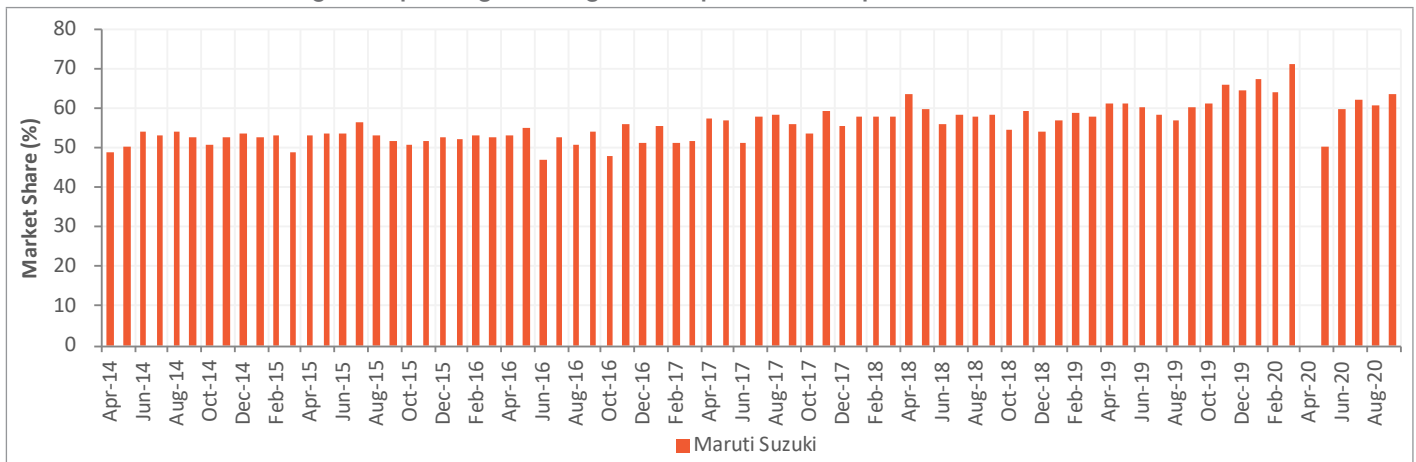
Source: Company; Sharekhan estimates

**Demand growth is expected to be buoyant:** MSL is witnessing strong recovery in sales volumes and is likely to have FY2021E-end growth flat on a y-o-y basis, despite a 36.6% y-o-y decline in H1FY2021 due to COVID-19 pandemic. We expect Q3FY2021 to be a strong quarter for MSL, with earnings expected to grow by 35% y-o-y at Rs. 2,112 crore, driven by 13.4% growth in revenue and 135 bps y-o-y at 11.5%. Demand in the PV segment remains buoyant even after the festive season. We expect MSL to register strong volume growth going forward, driven by new product launches, quick economic recovery, upside from COVID-19 vaccines, and low base. Retail sales continue to register strong growth. As per data released by FADA, MSL reported retail sales growth of 29.6% y-o-y at 1,30,772 units in December 2020, with market share gain of 209 bps at 48.21%. We expect the improving scenario in other geographies is likely to help MSL to register export growth. However, we expect domestic growth to be the key benefactor for the company. The company is operating at more than 90% capacity utilisation.

**MSL's market share to remain intact despite intense competition:** MSL is likely to be the beneficiary of buoyant demand in the PV segment, driven by rising demand in tier 2 and 3 cities and rural areas. Sales from rural areas will continue to improve, driven by strong farm sentiments on account of higher rainfall and kharif sowing. Rural sales have risen from 38.5% in Q2FY2020 to 41% in Q2FY2021. We also expect the share of first-time buyers to increase going forward, aided by preference for personal transportation. The share of new buyers has increased to 48% in Q2FY2021 from 43.4% in Q2FY2020.

Despite intense competition in the PV segment, MSL is expected to sustain its dominant market share, aided by its strong product portfolio and position, brand appeal, and ability to launch new models frequently. MSL has a strong hold in small and mid-size segments with over 50% market share and high success rates of its new launches. The company's brand positioning as value-for-money products is likely to remain intact due to its products' best fuel efficiency and lower maintenance cost. Moreover, high resale value of its products attracts customers.

**MSL continues its dominance in the passenger car segment despite fierce competition**



Source: Sharekhan Research

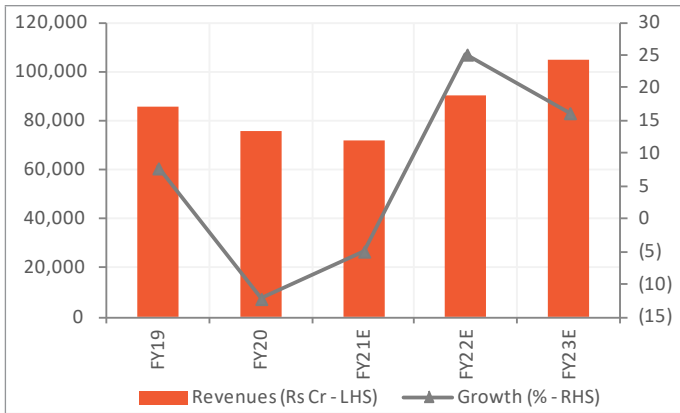
**Extensive network distribution helps MSL to penetrate rural markets:** MSL has the strongest distribution network and rural penetration in the PV segment that drives its revenue growth. We expect MSL to be the beneficiary of rising rural demand, driven by its reach and low maintenance services costs.

**Margins to improve on cost-cutting measures:** We expect MSL's OPM to remain strong in the quarters ahead. We expect MSL's EBITDA margin to retract back to more than 12% by FY2023. We have estimated EBITDA margin to be at 12.6% in FY2023E from 9.7% in FY2020, driven by operating leverage, increasing localisation levels, and improvement in operational efficiencies.

**Strong earnings growth; Revised earnings upwards:** We expect MSL's earnings to grow strongly by 44.5% and 19.5% in FY2022E and FY2023E, respectively, driven by 20.7% revenue CAGR (FY2021E-FY2023E) and 300 bps improvement in EBITDA margin. Moreover, core earnings (excluding earnings from the non-core business) are expected to post a 60.1% CAGR during FY2021E-FY2023E. We expect RoCE to improve to 18.3% in FY2023E from 13.6% in FY2020.

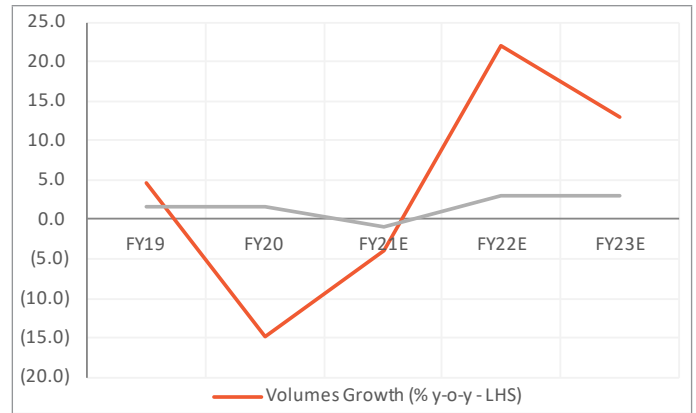
**Financials in charts**

**Revenue trend**



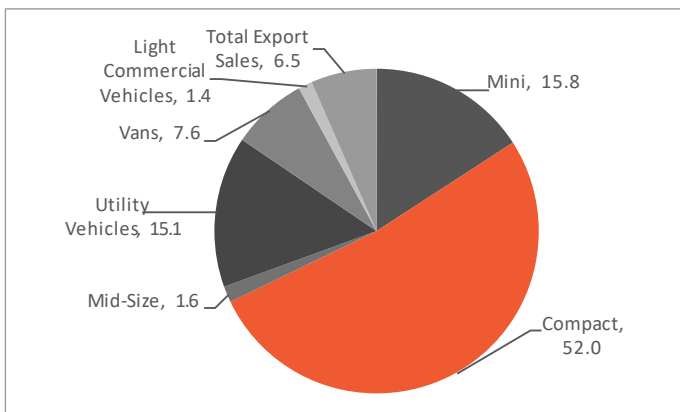
Source: Company, Sharekhan Research

**Volume and Realisation trend**



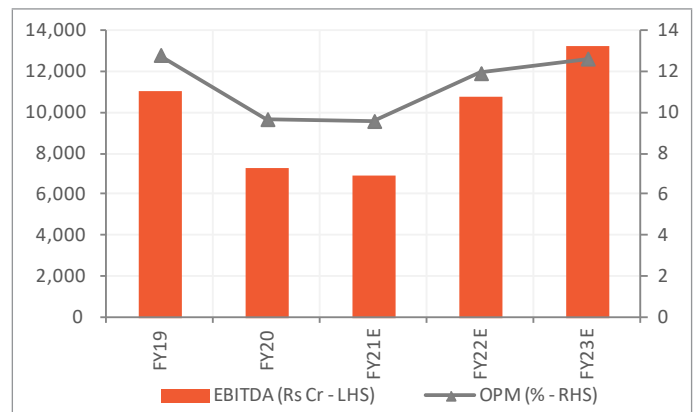
Source: Company, Sharekhan Research

**Product mix (%)**



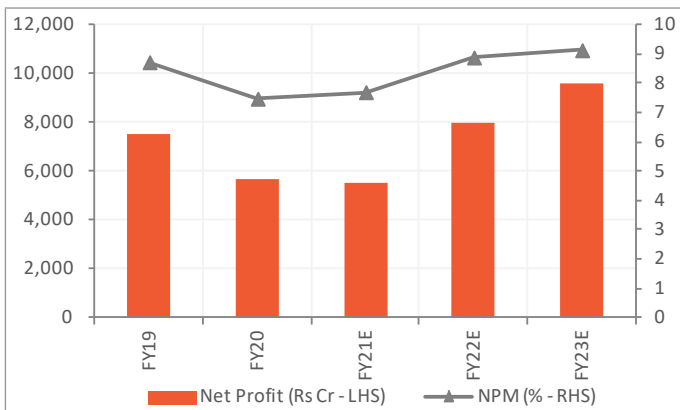
Source: Company, Sharekhan Research

**EBITDA and OPM trend**



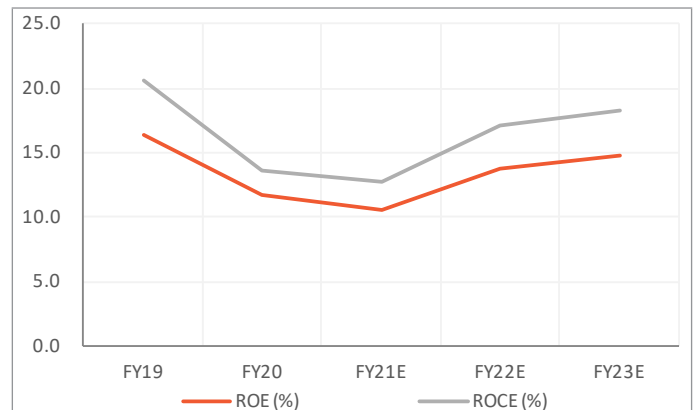
Source: Company, Sharekhan Research

**Net Profit and NPM trend**



Source: Company, Sharekhan Research

**ROE and ROCE trend**



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector outlook – PV industry demand improving sequentially; Expect strong recovery from FY2022

The PV industry turned positive in August 2020 and is showing improvement every month. Aggregate volumes registered by key OEMs in the PV segment witnessed growth of 25.3% y-o-y in December 2020. Channel check suggests strong enquiry and order book post the festive season across OEMs. We expect strong recovery from FY2022, driven by normalisation of economic activity and pent-up demand. Operating leverage and reduction in discounting due to pick-up in volumes would lead to the PV industry posting better margins in the coming quarters.

### ■ Company outlook – Strong earnings growth from the core business

MSL is witnessing strong recovery in sales volumes and is likely to have flat y-o-y sales volume growth in FY2021E, despite a 36.6% y-o-y decline in H1FY2021. We expect Q3FY2021 to be a strong quarter for MSL, with earnings expected to grow by 35% y-o-y at Rs. 2,112 crore, driven by 13.4% growth in revenue and 135 bps y-o-y at 11.5%. Demand in the PV segment remains buoyant even after the festive season. We expect MSL to register strong volume growth going forward, driven by new product launches, quick economic recovery, upside from COVID-19 vaccines, and low base. Retail sales continue to register strong growth. As per data released by FADA, MSL reported retail sales growth of 29.6% y-o-y at 1,30,772 units in December 2020 with market share gain of 209 bps at 48.21%. We expect the improving scenario in other geographies is likely to help MSL register export growth. However, we expect domestic growth to be the key benefactor for the company.

### ■ Valuation - Maintain Buy with a revised PT of Rs. 9,000

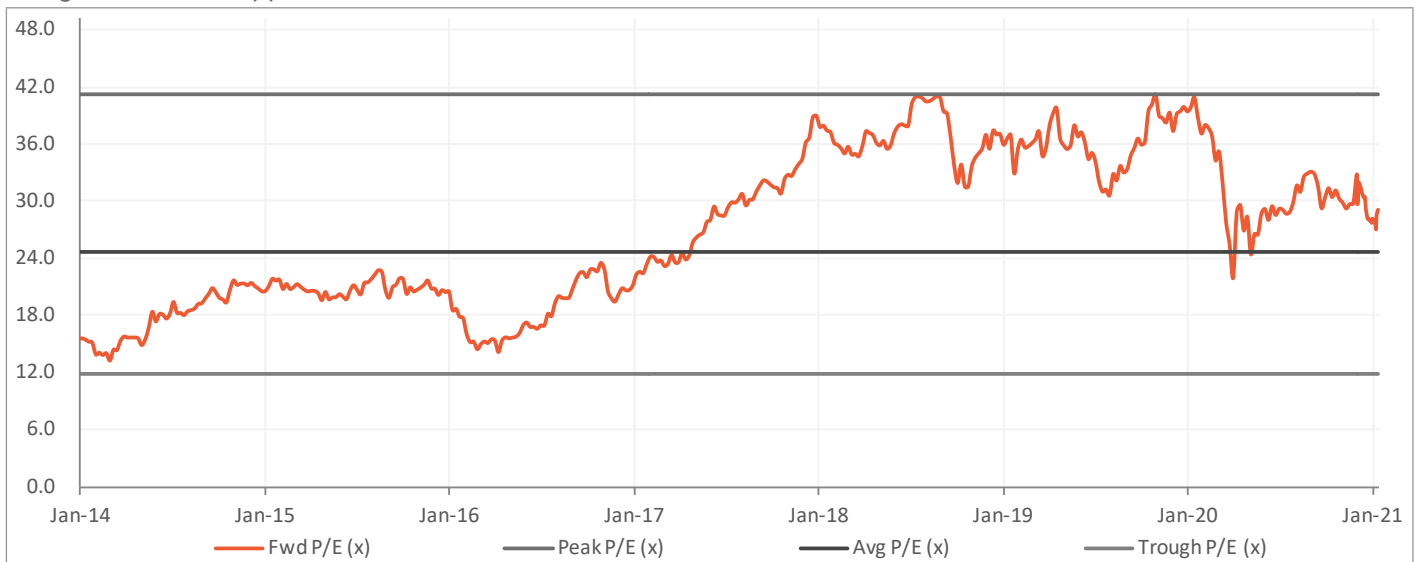
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#### PT valued at 15% premium to historical average

Price Target Calculation		
FY2023E Core EPS (Rs. per share)	221	
Target P/E Multiple (x)	33	15% premium to average P/Core EPS multiple
Core business. value (Rs. per share)	7,367	
Cash and cash equivalents	1,634	
Target Price (Rs.)	9,000	
Upside (%)	10%	

Source: Company Data; Sharekhan Research

#### One-year forward P/E (x) band



Source: Sharekhan Research

**Peer Comparison**

Particulars	CMP (Rs)	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Maruti Suzuki	8,160	44.5	30.8	25.8	35.5	22.7	18.3	12.8	17.1	18.3
Mahindra and Mahindra	779	27.3	21.2	18.3	14.6	11.4	9.7	11.9	13.8	14.7
Hero MotoCorp	3,242	24.2	18.7	16.0	15.4	11.6	9.3	23.1	28.2	26.5
Bajaj Auto	3,607	25.4	20.2	17.4	19.0	14.2	11.8	18.8	20.9	21.4

Source: Company, Sharekhan estimates

## About company

MSL (formerly Maruti Udyog Limited) is India's largest PV car company accounting for over 50% of the domestic car market. The company is the undisputed leader in mini and compact car segments in India and offers full range of cars - entry level, compact cars, and SUVs. MSL's market share in passenger cars stands at 62%, utility vehicles at 25%, and vans at 90%. MSL has been steadily ramping up its presence in the hinterlands, with rural sales currently contributing about 41% to overall sales. MSL is a subsidiary of Suzuki Motor Corporation of Japan. The Japanese car major holds 56.2% stake in MSL. The company has manufacturing plants in Gurgaon and Manesar.

## Investment theme

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## Key Risks

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## Additional Data

### Key management personnel

R C Bhargava	Chairman
Kenichi Ayukawa	Managing Director and CEO
Ajay Seth	Chief Financial Officer
Shashank Srivastava	Executive director, marketing and sales

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Suzuki Motor Corp	56.3
2	Life Insurance Corp of India	6.8
3	SBI Funds Management Pvt. Limited	1.7
4	JP Morgan Chase & Co	1.6
5	Vanguard Group Inc.	1.4
6	Blackrock Inc.	1.4
7	Capital Group companies	1.2
8	Axis Management Co. India	1.2
9	GIC Pte Ltd.	1.1
10	Nomura Holdings Inc.	0.9

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

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