

## Strong order-book, new SUV launches bodes well...

**About the stock:** Maruti Suzuki (MSIL) is the market leader in the domestic passenger vehicle (PV) space with market share pegged at ~43.4% and popular models being Alto, WagonR, Swift, Brezza, Baleno, Ertiga, etc., among others.

- Market leader in each sub-segment - cars (63.6%), UV (19.5%), vans (95.7%)
- Strong b/s; ~₹ 42,000 crore cash and investment on books as of FY22

**Q1FY23 Results:** The company posted muted performance in Q1FY23.

- Total operating income came in at ₹ 26,500 crores flat QoQ
- EBITDA margins in Q1FY23 stood at 7.2%, down 186 bps QoQ
- Consequent PAT at ₹ 1,013 crore was down ~44.9% QoQ, driven by decline in margins, MTM on investment book and higher effective tax rate

**What should investors do?** MSIL's stock price has grown at ~2.3% CAGR from ~₹ 7,630 levels in July 2017, in tandem to the broader Nifty Auto index in this time.

- We retain our **BUY** rating tracking healthy demand prospects, robust order-book & encouraging customer response to new launches in the SUV space. MSIL is best placed to play upon underpenetrated PV category domestically

**Target Price and Valuation:** Upgrading our estimates, we now value MSIL at ₹ 10,000 i.e., 33x P/E on FY24E EPS of ₹333/share (previous target ₹ 9,630).

### Key triggers for future price performance:

- Robust demand in SUV space aided by exciting product launches and sequential uptick in ASPs', we have built 24.4% FY22-24E sales CAGR
- Leadership position in the CNG space with CNG penetration now at ~20% of sales volume. Maiden strong hybrid offering in Grand Vitara
- New product launch pipeline along with facelifts especially in UV space to make good for the lost market share. We have built 15.9% sales volume CAGR over FY22-24E with outperformance expected from UV portfolio.
- Greenfield capex under execution for a new plant in the state of Haryana. Scheduled EV launch in 2025.

**Alternate Stock Idea:** Apart from MSIL, in our OEM coverage we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,500



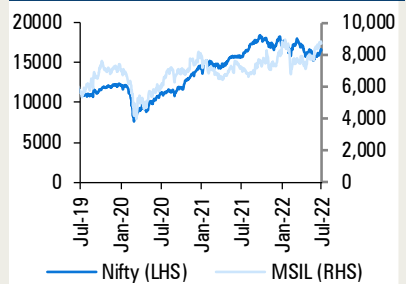
### Particulars

Particular	₹ crore
Market Capitalization	2,61,601
Total Debt (FY22P)	382
Cash & Invt. (FY22P)	42,136
EV	2,19,847
52 week H/L (₹)	9050 / 6537
Equity capital	₹ 151 Crore
Face value	₹ 5

### Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	56.4	56.4	56.4	56.4
FII	22.5	23.6	22.6	21.9
DII	16.0	15.3	16.3	18.0
Other	5.1	4.7	4.8	3.7

### Price Chart



### Recent event & key risks

- Muted performance in Q1FY23.
- Key Risk:** (i) Lower than anticipated volume growth, (ii) Muted margin profile amid volatile commodity prices

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Total Operating Income	86,020.3	75,610.6	70,332.5	88,295.6	5.4%	1,16,983.2	1,36,704.0	24.4%
EBITDA	10,999.3	7,302.6	5,345.3	5,661.8	-11.4%	9,895.0	13,354.8	53.6%
EBITDA Margins (%)	12.8	9.7	7.6	6.4		8.5	9.8	
Net Profit	7,500.6	5,650.6	4,229.7	3,766.3	-12.5%	7,154.3	10,068.2	63.5%
EPS (₹)	248.3	187.1	140.0	124.7		236.8	333.3	
P/E	34.9	46.3	61.8	69.5		36.6	26.0	
RoNW (%)	16.3	11.7	8.2	7.0		12.1	15.3	
RoIC (%)	68.6	26.8	24.2	24.2		58.5	93.8	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results:

- Total operating income for the quarter stood at ₹ 26,500 flat QoQ. Q1FY23 volumes came in at 4.7 lakh units, down 4.3% QoQ. Of this, domestic volumes de-grew by 5.3% QoQ to 4.0 lakh units, while exports volumes were flat QoQ at 0.7 lakh units. Average Selling Price (ASP) came in at ₹ 5.4 lakh/unit, up 3.5% QoQ.
- Margins surprised negatively this time, down ~186 bps QoQ to 7.2%. Gross margins declined 105 bps QoQ while employee costs & other expenses were up by ~53 bps & ~26 bps respectively.
- Consequent PAT in Q1FY23 came in at ₹ 1,013 crore, down 44.9% QoQ. Muted PAT performance was due to lower operating margins, lower other income (mark to market adjustment) & higher effective tax rate at 23.4% vs 16.3% in Q4FY22.

### Q4FY22 Earnings Conference Call highlights

- Q1FY23 remained weak for company amidst conductor shortage impacting wholesales (~51,000 units' production lost) and commodity inflation impacting margins. However, company witnessed highest ever exports ~69k during Q1FY23.
- Management informed that on raw material inflation effect comes with quarterly lag and with peak attained and further no hike being witnessed till date margins to improve going forward.
- Company plans to invest ₹11,000 crores in new facility in Haryana spread across 800 acres of land with 2.5 lakh annual capacity to start with and expected commissioning in 2025. It has sufficient space to expand capacities on the site. This capex would be accounted for in MSIL's book.
- During the quarter company witnessed ~2% hike in material prices which was partially offset by commodity led price hikes.
- Company continues to witness strong order book of ~3.5 lakh units as on date. With respect to launch of recent products: New Brezza received ~70,000 bookings in short span of time and that to ~50-60% for higher end models & ~20,000 booking for Grand Vitara of which ~45-50% is for strong hybrid model.
- Management expects Grand Vitara to be hit product in hot selling SUV space which today forms ~40-50% of total cars sold.
- Exchange rate benefit to come in effect from Q2FY23. Current direct yen exposure is up to 3% of topline and indirect yen exposure is pegged at 85 billion yen. Royalty is paid in INR and hence free from exchange rate fluctuation risk (~3.7% of sales)
- Management continues to focus on increasing exports as exports have nearly doubled during FY22 and would like to sustain this level and even improve through networking channel of its parent if economic factors supports.

Volume at Gujarat plant stood at 31% of total output

Export revenue stood at ₹3,640 crores during Q1FY23 vs ₹3,511 crores in Q4FY22

Avg. discount per car stood at ~₹ 12,750 during Q1FY23 vs. ~₹11,130 in Q4FY22.

CNG portfolio continues to expand at company and now forms ~20% of total sales.

## Peer comparison

Exhibit 1: ICICI Direct coverage universe (4-W OEMs)

Company	CMP	TP	Rating	Mcap	Total lakh volumes			EBITDA margin (%)			RoCE (%)			P/E		
	₹	₹		₹ crore	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Maruti Suzuki (MARUTI)	8,660	10,000	Buy	2,61,601	16.5	19.8	22.2	6.4	8.5	9.8	5.1	11.5	15.2	69.5	36.6	26.0
Tata Motors (TATMOT)	441	500	Buy	1,68,878	3.7	4.5	4.9	12.2	12.7	14.3	4.8	8.1	13.7	(14.8)	263.5	20.9
M&M (MAHMAH)	1,136	1,500	Buy	1,35,911	4.7	6.1	6.8	12.3	12.3	13.0	9.3	11.9	13.6	27.6	22.8	19.2

Source: Company, ICICI Direct Research

Note – There are no directly comparable listed companies in pure-play PVs. Tata Motors, M&M volumes above are for India PV & automotive businesses respectively.

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (Chg %)	Q4FY22	QoQ (Chg %)	Comments
Total Operating Income	26,500	26,040	17,771	49.1	26,740	-0.9	Topline came in ahead of estimates tracking better than anticipated ASP's which for the quarter came in at ₹ 5.4 lakh/unit
Raw Material Expenses	19,770	19,108	13,291	48.8	19,667	0.5	RM costs came in on higher side at 74.6% of sales vs. our expectations of 73.4%, driven by lag effect of commodity and currency benefits
Employee Expenses	1,158	1,056	1,064	8.8	1,026	12.9	
Other expenses	3,659	3,479	2,595	41.0	3,621	1.1	Other expenses too came in higher and were up ~30 bps QoQ at 13.8% of sales
Operating Profit (EBITDA)	1,912	2,397	821	132.9	2,427	-21.2	
EBITDA Margin (%)	7.2	9.2	4.6	259 bps	9.1	-186 bps	EBOTDA margins came in much below our estimates and were down 190 bps QoQ at 7.2%, driven by increase in all cost line items
Other Income	89	541	508	-82.6	474	-81.3	Other income came in substantially lower tracking mark to market adjustment on investment book
Depreciation	651	719	743	-12.4	647	0.6	
Interest	27	28	22	23.4	56	-51.1	
Total Tax	309.0	438.1	122.7	151.8	359.1	-14.0	Tax rate for the quarter came in higher at 23.4%
PAT	1,013	1,752	441	129.8	1,839	-44.9	
EPS	33.5	58.0	14.6	129.8	60.9	-44.9	PAT stood much lower tracking lower than anticipated margins and lower other income
<b>Key Metrics</b>							
ASP (₹)	5,40,385	5,31,007	4,75,058	13.8	5,21,940	3.5	ASP's were up 3.5% QoQ at ₹ 5.4 lakh/unit
Discounts (₹)	12,750	12,500	13,900	-8.3	11,130	14.6	Discounts too were up QoQ basis

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Total Operating Income	1,07,208	1,16,983	9.1	1,22,360	1,36,704	11.7	Upward revision in sales volume and ASP estimates leads to healthy upgrade in topline estimates. We expect total operation income at the company to grow at a CAGR of 24.4% over FY22-24E
EBITDA	9,634	9,895	2.7	12,805	13,355	4.3	
EBITDA Margin (%)	9.0	8.5	-53 bps	10.5	9.8	-70 bps	Muted margin profile in Q1FY23 leads to downward revision in margin estimates for FY23E, 24E
PAT	7,030.9	7,154	1.8	9,696	10,068	3.8	
EPS (₹)	232.7	237	1.8	321	333	3.8	Our earning estimates remain broadly unchanged

Source: ICICI Direct Research

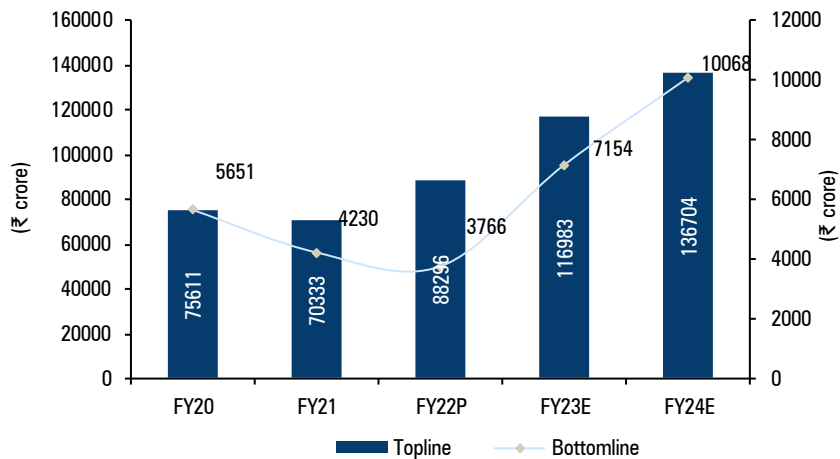
Exhibit 4: Assumptions

	FY18				Current			Earlier		Comments
	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Total Volumes (lakh units)	17.8	18.6	15.6	14.6	16.5	19.8	22.2	19.2	21.5	With strong pending order book as well as interesting product launches in the SUV segment we have revised upward our sales volume estimates. We now expect sales volume at Maruti to grow at a CAGR of 15.9% over FY22-24E. With increasing share of SUV's, ASP's are slated to improve to ₹ 5.9 lakh/unit by FY24E, growing at a CAGR of 7.6%
Average ASPs (₹ lakh/unit)	4.39	4.46	4.59	4.57	5.07	5.65	5.88	5.33	5.44	
RMC/Unit (₹ lakh/unit)	3.09	3.24	3.45	3.49	4.00	4.39	4.53	4.10	4.12	
Discount (₹/unit)	15,895	18,334	23,688	19,771	14,700	12,563	12,500	12,500	12,500	

Source: ICICI Direct Research

## Financial story in charts

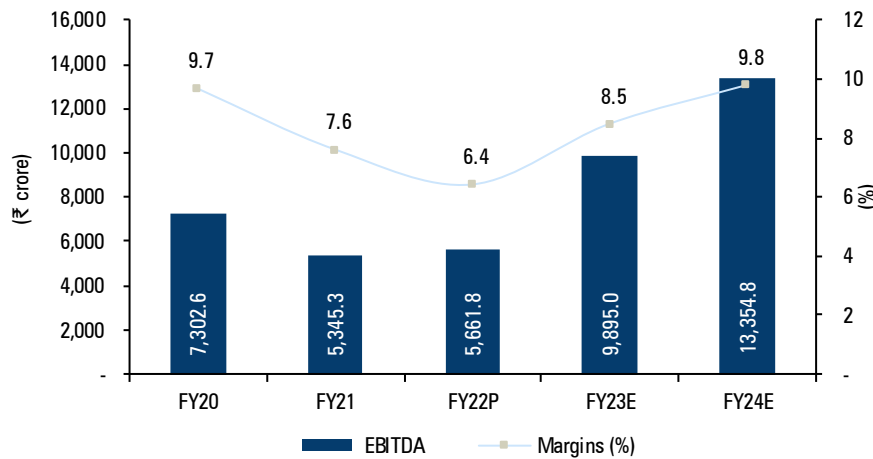
Exhibit 5: Trend in top line and bottom line



We expect net sales to grow at 24.4% CAGR over FY22-24E on the back of 15.9% volume CAGR. PAT is expected to grow at 63.5% CAGR in the aforesaid period to ₹ 10,068 crore by FY24E.

Source: Company, ICICI Direct Research

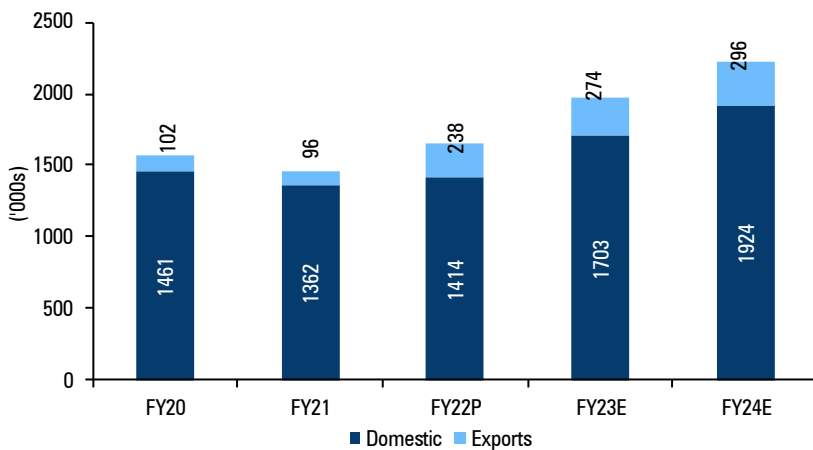
Exhibit 6: Trend in margins



With benign raw material price outlook and operating leverage at play margin trajectory at MSIL is seen inching up to 9.8% by FY24E vs. 6.4% in FY22

Source: Company, ICICI Direct Research

Exhibit 7: Domestic vs. exports volume trend



Exports are seen forming ~13-14% of FY24E volumes. They have grown remarkably well and is up >2x in FY22 vs. FY21

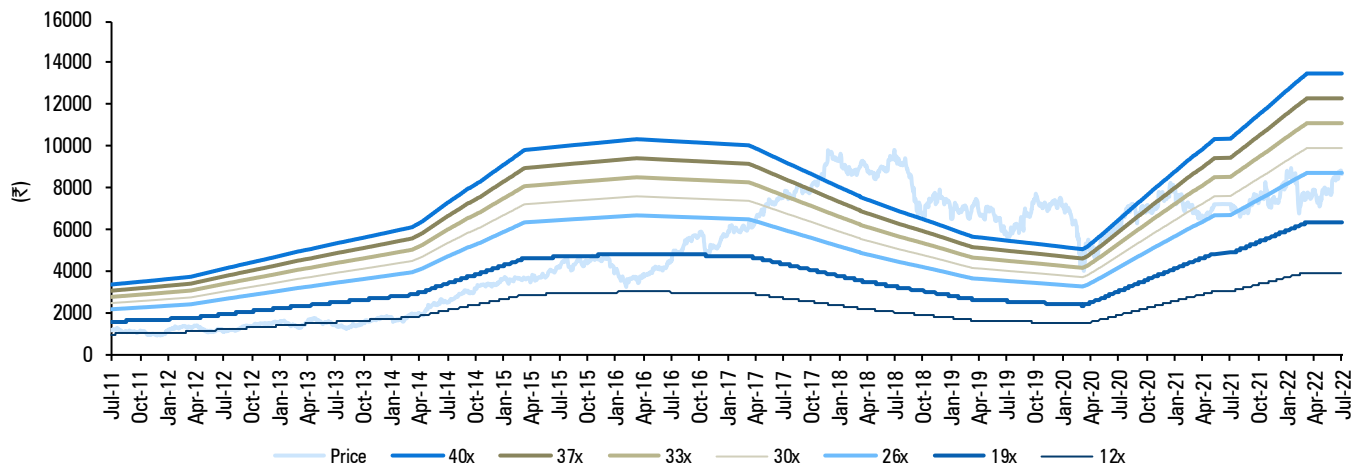
Source: Company, ICICI Direct Research

Exhibit 8: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	79,763	17.2	256	5.2	33.9	18.9	18.5	21.1
FY19	86,020	7.8	248	(2.9)	34.9	20.6	16.3	16.3
FY20	75,611	(12.1)	187	(24.7)	46.3	30.9	11.7	7.4
FY21	70,333	(7.0)	140	(25.1)	61.8	40.9	8.2	4.3
FY22P	88,296	25.5	125	(11.0)	69.5	38.8	7.0	5.1
FY23E	1,16,983	32.5	237	90.0	36.6	21.8	12.1	11.5
FY24E	1,36,704	16.9	333	40.7	26.0	15.8	15.3	15.2

Source: Company, ICICI Direct Research

Exhibit 9: MSIL currently trades at ~26x PE on FY24E EPS



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Total operating Income</b>	<b>70,333</b>	<b>88,296</b>	<b>1,16,983</b>	<b>1,36,704</b>
Growth (%)	-7.0	25.5	32.5	16.9
Raw Material Expenses	50,817	66,037	86,730	1,00,496
Employee Expenses	3,403	4,022	4,612	4,983
Other expenses	10,767	12,574	15,747	17,871
Total Operating Expenditure	64,987	82,634	1,07,088	1,23,349
<b>EBITDA</b>	<b>5345.3</b>	<b>5661.8</b>	<b>9895.0</b>	<b>13354.8</b>
Growth (%)	-27	6	75	35
Depreciation	3,032	2,787	2,808	3,007
Interest	101	126	113	102
Other Income	2,946	1,833	2,171	2,663
PBT	5,159	4,582	9,145	12,908
Total Tax	930	816	1,991	2,840
Tax Rate (%)	18.0	17.8	21.8	22.0
<b>PAT</b>	<b>4229.7</b>	<b>3766.3</b>	<b>7154.3</b>	<b>10068.2</b>
Growth (%)	-25.1	-11.0	90.0	40.7
<b>EPS (₹)</b>	<b>140.0</b>	<b>124.7</b>	<b>236.8</b>	<b>333.3</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Profit after Tax</b>	<b>4,230</b>	<b>3,766</b>	<b>7,154</b>	<b>10,068</b>
Add: Depreciation	3,032	2,787	2,808	3,007
Sub: Other Income	2,946	1,833	2,171	2,663
(Inc)/dec in Current Assets	113	-3,113	-3,367	-2,285
Inc/(dec) in CL and Provisions	4,429	1,014	5,282	3,694
Others	101	126	113	102
<b>CF from operating activities</b>	<b>8957.9</b>	<b>2746.5</b>	<b>9818.4</b>	<b>11924.1</b>
(Inc)/dec in Investments	-4,762	1,470	-4,000	-4,750
(Inc)/dec in Fixed Assets	-2,360	-2,986	-5,000	-6,000
Others	-749	-1,784	-310	-310
Add: Other income	2,946	1,833	2,171	2,663
<b>CF from investing activities</b>	<b>-4924.4</b>	<b>-1466.8</b>	<b>-7138.8</b>	<b>-8397.4</b>
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	383	-107	-100	-100
Dividend paid & dividend tax	-1,359	-1,812	-2,266	-3,323
Others	-41	640	-113	-102
<b>CF from financing activities</b>	<b>-1018.3</b>	<b>-1279.9</b>	<b>-2478.9</b>	<b>-3524.9</b>
Net Cash flow	3,015	0	201	2
Opening Cash	21	3,036	3,036	3,237
<b>Closing Cash</b>	<b>3036.4</b>	<b>3036.2</b>	<b>3236.9</b>	<b>3238.7</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	151	151	151	151
Reserve and Surplus	51,216	53,935	58,824	65,569
<b>Total Shareholders funds</b>	<b>51366.8</b>	<b>54086.0</b>	<b>58974.7</b>	<b>65720.0</b>
Total Debt	489	382	282	182
Deferred Tax Liability	385	0	0	0
Others Liabilities	2,209	2,295	2,335	2,375
<b>Total Liabilities</b>	<b>54449.5</b>	<b>56762.5</b>	<b>61591.2</b>	<b>68276.5</b>
<b>Assets</b>				
Gross Block	32,896	34,435	39,074	42,074
Less: Acc Depreciation	17,641	20,428	23,235	26,243
<b>Net Block</b>	<b>15254.5</b>	<b>14007.6</b>	<b>15839.1</b>	<b>15831.6</b>
Capital WIP	1,192	2,639	3,000	6,000
Total Fixed Assets	16,447	16,647	18,839	21,832
<b>Investments</b>	<b>41786.7</b>	<b>40763.3</b>	<b>45013.3</b>	<b>50013.3</b>
Inventory	3,050	3,533	4,808	5,618
Debtors	1,277	2,030	3,205	3,745
Loans and Advances	23	31	40	47
Other Current Assets	2,725	4,594	5,502	6,429
<b>Cash</b>	<b>3036.4</b>	<b>3036.2</b>	<b>3236.9</b>	<b>3238.7</b>
Total Current Assets	10,111	13,224	16,792	19,079
Creditors	10,162	9,761	12,820	14,981
Provisions	742	861	1,131	1,322
Other current Liabilities	4,715	6,010	7,962	9,304
Total Current Liabilities	15,618	16,632	21,913	25,607
<b>Net Current Assets</b>	<b>-5506.9</b>	<b>-3407.8</b>	<b>-5121.6</b>	<b>-6528.9</b>
Other Assets	1,723	2,760	2,860	2,960
<b>Application of Funds</b>	<b>54449.5</b>	<b>56762.5</b>	<b>61591.2</b>	<b>68276.5</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	140.0	124.7	236.8	333.3
Cash EPS	240.4	216.9	329.8	432.9
BV	1,700.4	1,790.5	1,952.3	2,175.6
DPS	45.0	60.0	75.0	110.0
Cash Per Share	1,443.6	1,394.9	1,533.9	1,691.2
<b>Operating Ratios</b>				
EBITDA Margin (%)	7.6	6.4	8.5	9.8
PBIT / Net sales (%)	3.3	3.3	6.1	7.6
PAT Margin (%)	6.0	4.3	6.1	7.4
Inventory days	15.8	14.6	15.0	15.0
Debtor days	6.6	8.4	10.0	10.0
Creditor days	52.7	40.4	40.0	40.0
<b>Return Ratios (%)</b>				
RoE	8.2	7.0	12.1	15.3
RoCE	4.3	5.1	11.5	15.2
RoIC	24.2	24.2	58.5	93.8
<b>Valuation Ratios (x)</b>				
P/E	61.8	69.5	36.6	26.0
EV / EBITDA	40.9	38.8	21.8	15.8
EV / Net Sales	3.1	2.5	1.8	1.5
Market Cap / Sales	3.7	3.0	2.2	1.9
Price to Book Value	5.1	4.8	4.4	4.0
<b>Solvency Ratios</b>				
Debt/EBITDA	0.1	0.1	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.6	1.0	1.0	1.0
<b>Quick Ratio</b>	<b>0.4</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E
Apollo Tyre (APOTYR)	209	230	Buy	13,276	10.1	12.7	19.4	20.8	16.4	10.8	6.9	6.1	4.6	6.3	7.3	10.3	5.4	6.6	9.4
Ashok Leyland (ASHLEY)	145	160	Buy	42,428	1.8	2.1	4.6	78.5	70.4	31.4	43.4	24.6	15.2	2.1	8.5	17.0	0.2	7.9	16.2
Bajaj Auto (BAAUTO)	3,925	4,180	Hold	1,13,578	173.4	218.4	247.2	22.6	18.0	15.9	17.6	13.0	11.4	18.4	27.1	29.3	17.6	24.5	26.3
Balkrishna Ind. (BALIND)	2,254	2,475	Buy	43,576	73.0	81.4	103.2	30.9	27.7	21.9	22.9	18.6	14.5	15.9	18.0	21.7	20.4	19.4	20.7
Bharat Forge (BHAFOR)	703	840	Buy	32,739	23.1	23.9	30.0	30.4	29.4	23.5	17.8	15.7	13.1	9.6	10.7	12.6	15.2	15.1	16.8
Eicher Motors (EICMOT)	3,025	2,480	Hold	82,676	61.3	87.6	107.2	49.3	34.5	28.2	34.2	24.3	19.8	13.3	17.3	18.7	13.3	16.9	18.2
Escorts Kubota (ESCORT)	1,696	1,840	Hold	22,381	55.8	70.1	82.2	30.4	24.2	20.6	18.4	15.2	12.4	10.4	10.9	11.5	9.3	10.6	11.2
Hero Moto (HERHON)	2,800	2,495	Hold	55,921	123.8	156.1	176.3	22.6	17.9	15.9	14.2	11.1	9.7	16.3	20.7	22.2	15.7	18.7	19.9
M&M (MAHMAH)	1,136	1,500	Buy	1,35,911	41.2	49.9	59.3	27.6	22.8	19.2	18.6	14.5	12.0	9.3	11.9	13.6	13.1	13.8	14.6
<b>Maruti Suzuki (MARUTI)</b>	<b>8,660</b>	<b>10,000</b>	<b>Buy</b>	<b>2,61,601</b>	<b>124.7</b>	<b>236.8</b>	<b>333.3</b>	<b>69.5</b>	<b>36.6</b>	<b>26.0</b>	<b>38.8</b>	<b>21.8</b>	<b>15.8</b>	<b>5.1</b>	<b>11.5</b>	<b>15.2</b>	<b>7.0</b>	<b>12.1</b>	<b>15.3</b>
Minda Industries (MININD)	525	575	Buy	29,991	6.2	9.6	12.5	84.3	54.9	42.1	34.5	26.7	21.6	10.2	13.1	15.9	10.3	13.9	15.6
Tata Motors (TATMOT)	441	500	Buy	1,68,878	-29.9	1.7	21.1	-14.8	263.5	20.9	7.2	5.9	4.4	4.8	8.1	13.7	-23.4	1.3	14.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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