Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 25.69

Updated Jul 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

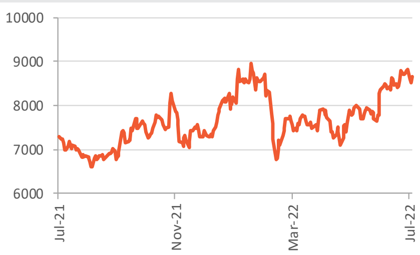
Company details

Market cap:	Rs. 2,61,601 cr
52-week high/low:	Rs. 9,022 / 6,540
NSE volume: (No of shares)	8.03 lakh
BSE code:	532500
NSE code:	MARUTI
Free float: (No of shares)	13.2 cr

Shareholding (%)

Promoters	56.4
FII	21.9
DII	18.0
Others	3.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.6	11.2	9.4	18.8
Relative to Sensex	-2.4	13.0	17.5	13.4

Sharekhan Research, Bloomberg

Stock Update

Result Update

Maruti Suzuki India Ltd

Margins disappoint; new launches to drive growth

Automobiles	Sharekhan code: MARUTI

Reco/View: Buy	↔	CMP: Rs. 8,660	Price Target: Rs. 10,200	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Maruti Suzuki India Limited (MSIL) reported lower-than-expected operational performance, led by higher commodity prices, higher sales promotion expenses and lower non-operating income.
- MSIL' s market share in SUV segment is set to improve, led by new launches.
- Earnings are expected to post a 65.1% CAGR during FY2022-FY2024E, driven by a 20.7% revenue CAGR and a 470-bps improvement in EBITDA margin.
- Stock trades at P/E of 25.5x and EV/EBITDA of 19.1x on FY24E earnings estimates. We reiterate a Buy on the stock with a revised PT of Rs. 10,200, led by buoyant demand and comfortable valuations.

We stay positive on Maruti Suzuki India Limited (MSIL), as we expect volumes to regain pace going forward led by new launches and improving demand in both, rural and urban markets. Further, easing of semiconductor chip shortage is expected to increase sales going forward. The company reported lower than expected operational performance in Q1FY23, led by higher commodity prices, higher sales promotion expenses and lower non-operating income. Revenue, EBITDA and PAT grew by 49.1% y-o-y, 132.9% y-o-y and 129.8% y-o-y. We expect the margins to improve to double digits, led by stable commodity prices, product mix and positive operating leverage. The company continues to strengthen its market position in the SUV segment through new launches and greater focus on greener technologies, including CNG-variant and electric vehicle (EV) product development. Buoyant rural demand and success of new launches would be key growth drivers for the company. Order book remains high at above 3.5 lakh units due to supply constraints. Earnings are expected to witness a 65.1% CAGR during FY2022-FY2024E, driven by a 20.7% revenue CAGR and 470-bps improvement in EBITDA margin. We expect MSIL's market share to improve, led by rising demand from rural and semi-urban markets, improving supply constraints, new launches, and focus on green technology. We reiterate our Buy recommendation on the stock price with a revised price target (PT) of Rs. 10,200.

Key positives

- Net revenue improved 49.1% y-o-y to Rs 26,500 crore, led by 32.1% growth in volumes and 12.7% growth in average realization.
- FY2022 had record sales in exports and CNG models for MSIL.
- Brezza and Grand Vitara have received order booking of more than 90,000 units in a short time.

Key negatives

- Shortage of chips impacted production of ~51,000 vehicles.
- EBITDA margin contracted 160 bps higher than our expectations at 7.2% in Q1FY23, led by higher commodity prices and increase in sales promotion expenses.

Management Commentary

- Demand remains robust with pending deliveries of more than 3.5 lakh vehicles
- The company expects raw-material prices to remain stable in in the near term.
- Management continues to focus on the SUV segment, CNG variants, and EV product development.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 10,200: MSIL is expected to witness a recovery in domestic demand with sales volume sustaining growth, despite near-term challenges of electronic component shortage. Sales enquiries remain strong with order book currently at more than 3.5 lakh units. New launches, Brezza and Grand Vitara, have received a strong response from customers, with order booking of more than 90,000 units in short span of time. We expect growth momentum to continue in FY2023E, driven by normalisation of economic activity and improving rural sentiments. Margins are expected to improve from 6.4% in FY2022 to 11.1% in FY2024E, driven by operating leverage benefits and cost-control measures. We stay positive on the company, led by its structural growth outlook (which remains intact), healthy balance sheet, and comfortable valuations. The stock is trading at P/E of 23.8x and EV/EBITDA of 17.8x its FY2024E estimates. We retain our Buy rating on MSIL with an unchanged price target (PT) of Rs. 10,200.

Key Risks

Significant delay in improvement of chips shortage could affect our volume estimates.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Net sales	70,333	88,296	1,10,905	1,28,641
Growth (%)	-7.0	25.5	25.6	16.0
EBITDA	5,287	5,662	11,294	14,232
EBIDTA %	7.5	6.4	10.2	11.1
PAT	4,230	3,766	8,038	10,271
Growth (%)	-25.1	-11.0	113.4	27.8
FD EPS (Rs)	140.0	124.7	266.1	340.0
P/E (x)	61.8	69.5	32.5	25.5
P/B (x)	5.1	4.8	4.4	3.9
EV/EBITDA (x)	49.3	46.6	23.4	19.1
RoE (%)	8.2	7.0	13.5	15.4
RoCE (%)	9.4	8.0	15.9	18.4

Source: Company; Sharekhan estimates

Key highlights of Q1FY23 results and conference call

- **Q1FY23 results lag expectations:** Maruti Suzuki India Limited (MSIL) reported lower than expected operational performance, led by higher commodity prices, increase in sales promotion expenses and lower non-operating income. Net revenue improved 49.1% y-o-y to Rs 26,500 crore, led by a 32.1% growth in volumes and 12.7% growth in average realisation. The increase in average realisation was on back of price hikes taken by the company during the year, largely necessitated by a rise in raw material costs. The company was also benefitted by favourable currency movement. The company's sales were hit by 51,000 units due to chips supply constraints. EBITDA margin contracted 160 bps higher than our expectations in Q1FY23. EBITDA margin for the Q1FY23 stood at 7.2%, which is a sequential contraction of 110 bps q-o-q. The EBITDA margins declined on the back of higher commodity prices and increase in sales promotion expenses. EBITDA and PAT were lower than expectations by 16.3% and 37.9% respectively. On y-o-y basis, EBITDA and PAT were up by 133% and 130% on a lower base.
- **Management outlook:** Demand scenario remains robust with pending deliveries of more than 3.5 lakh vehicles. Management continues to focus on the SUV segment, CNG variants, and development of EV products. The company expects raw-material prices to remain stable in Q1FY2023.
- **New launches and product performance:** The company has launched refreshed versions of Brezza and Grand Vitara, which received a strong response from customers, with order booking of more than 70,000 and 20,000 respectively. The Grand Vitara models include a hybrid electric version that claims an average mileage of 27km/ltr. The top variants are receiving strong traction with Brezza (~40% of total bookings) and Grand Vitara (hybrid variant is ~50% of total booking). During the Q4FY22, the company had launched new CNG variants of all new Celerio and new Baleno, which continues to drive growth for the company. Rising gasoline prices and mileage benefits are the key drivers for this CNG variant. Management continues to remain aggressive in product launches, especially in the SUV segment, going forward.
- **New features added in Ertiga:** The company has taken a price increase of Rs6,000 for its Ertiga model in all the existing variants to equip the vehicle with ESP & Hill Hold Assist as standard features. Earlier, these features were being offered in automatic transmission and Zxi+ manual transmission only. The Ertiga is doing well with 38% increase in volumes to 68,992 units in the first six months of CY22, supported by launch of CNG models and addition of contemporary features in the car. The Ertiga has a strong demand, as the products are being sold at no discounts with a long waiting list. The new features would further help to increase sales.
- **Exports stay buoyant:** Management expects exports to be a key growth driver going forward, given improving scenario in other geographies. Exports remained robust during Q1, with exports improving 52.5% y-o-y to 69,437 units. The company is operating at full capacity, which will keep driving profitability. The company is receiving strong response for its Jimny SUV in export markets. Exports have more than doubled over the previous year, driven by strong sales in Africa, South Africa, Latin America, Chile, and Egypt. The company benefitted from Toyota's distribution network globally.
- **Strong earnings growth outlook:** MSIL's robust distribution network for passenger vehicles (PVs) and rural penetration are likely to drive strong revenue growth going forward. Volumes are expected to improve in FY2023E with expectations of strong double-digit growth, aided by robust exports as well. MSIL would benefit from operating leverage, driven by robust volume growth. We expect its earnings to post a 65.1% CAGR during FY2022-FY2024E, driven by a 20.7% revenue CAGR and 470-bps improvement in EBITDA margin.

Results (Standalone) Rs cr

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Revenues	26,499.8	17,770.7	49.1	24,023.7	10.3
Operating Expenses	24,587.7	16,949.6	45.1	22,032.6	11.6
EBIDTA	1,912.1	821.1	132.9	1,991.1	(4.0)
Depreciation	651.4	743.2	(12.4)	741.0	(12.1)
Interest	27.4	22.2	23.4	32.4	(15.4)
Other Income	88.5	507.8	(82.6)	89.8	(1.4)
PBT	1,321.8	563.5	134.6	1,307.5	1.1
Tax	309.0	122.7	151.8	141.4	118.5
Adjusted PAT	1,012.8	440.8	129.8	1,166.1	(13.1)
EPS	33.5	14.6	129.8	38.6	(13.1)

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q1FY23	Q1FY22	Y-o-Y (bps)	Q4FY22	Q-o-Q (bps)
Gross margin (%)	25.4	25.2	20	26.1	(70)
EBIDTA margin (%)	7.2	4.6	260	8.3	(110)
EBIT margin (%)	4.8	0.4	430	5.2	(40)
Net profit margin (%)	3.8	2.5	130	4.9	(100)
Effective tax rate (%)	23.4	21.8	160	10.8	1,260

Source: Company; Sharekhan Research

Volume Analysis Rs cr

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Volumes	4,67,931	3,53,614	32.3	4,88,830	(4.3)
Revenue/Vehicle	5,66,319	5,02,545	12.7	5,47,020	3.5
RMC/Vehicle	4,22,502	3,75,848	12.4	4,02,322	5.0
Gross profit/Vehicle	1,43,816	1,26,697	13.5	1,44,699	(0.6)
Operating exp/Vehicle	5,25,456	4,79,325	9.6	4,97,375	5.6
EBITDA/Vehicle	40,863	23,220	76.0	49,645	(17.7)
PAT/Vehicle	21,644	12,466	73.6	37,618	(42.5)

Source: Company; Sharekhan Research

Outlook and Valuation

Sector Outlook – Expect recovery in PV demand

The PV segment is expected to remain strong amid COVID-19, as a preference for personal transport, pent-up demand, and strong rural sentiments. Supply-side headwinds related to semi-conductor chip shortage are expected to slow down domestic PV sales to 17-20% in FY2023E. We expect shortage of semiconductor chips to ease going forward and normalise by CY2023. Moreover, a recovery in export destinations is expected to keep growth momentum favourable.

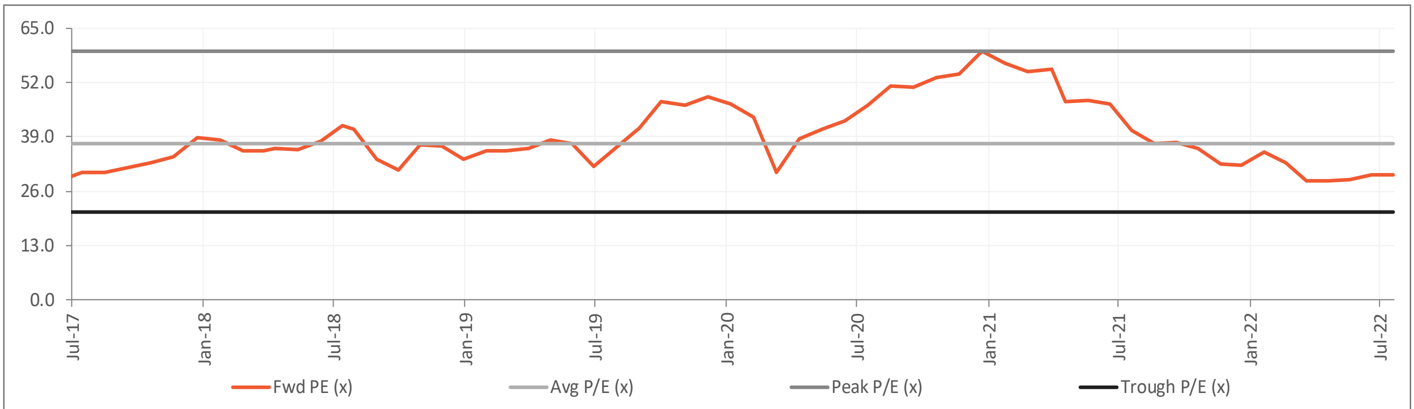
Company Outlook – Strong earnings growth from the core business

Management was cautiously optimistic on the demand outlook for domestic as well as export markets. The company has witnessed strong demand from rural and semi-urban areas, where MSIL's distribution network and product portfolio fit aptly. Improving income levels of individuals, firms and corporates are likely to keep demand strong in the medium term. However, near-term growth would be affected by shortage of electronic components. We expect FY2023 to be stronger for MSIL, driven by strong volume growth. Volume growth will be aided by new product launches, a quick economic recovery, upside from COVID-19 vaccines and a low base. MSIL's strong distribution network in the segment and rural penetration are likely to drive strong revenue growth going forward.

Valuation – Maintain Buy with a revised PT of Rs. 10,200

MSIL is expected to witness a recovery in domestic demand with sales volume sustaining growth, despite near-term challenges of electronic component shortage. Sales enquiries remain strong with order book currently at more than 3.5 lakh units. New launches, Brezza and Grand Vitara, have received a strong response from customers, with order booking of more than 90,000 units in short span of time. We expect growth momentum to continue in FY2023E, driven by normalisation of economic activity and improving rural sentiments. Margins are expected to improve from 6.4% in FY2022 to 11.1% in FY2024E, driven by operating leverage benefits and cost-control measures. We stay positive on the company, led by its structural growth outlook (which remains intact), healthy balance sheet, and comfortable valuations. The stock is trading at P/E of 23.8x and EV/EBITDA of 17.8x its FY2024E estimates. We retain our Buy rating on MSIL with an unchanged price target (PT) of Rs. 10,200.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	Rs/ Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Maruti Suzuki	8,660	69.5	32.5	25.5	46.6	23.4	19.1	8.0	15.9	18.4
M&M	1,138	26.5	21.7	17.6	18.9	13.9	11.1	14.6	17.1	18.9
Tata Motors	444	NA	24.1	14.0	8.8	6.1	4.8	1.2	5.7	13.7

Source: Company, Sharekhan estimates

About company

MSIL is India's largest PV car company accounting for ~45% of the domestic car market. The company is the undisputed leader in the mini and compact car segments in India and offers full range of cars – entry level, compact cars, and SUVs. MSIL's market share in passenger cars stands at 62%, utility vehicles (UV) at 25%, and vans at 90%. MSIL has been steadily ramping up its presence in the hinterlands, with rural sales currently contributing about 41% to overall sales. MSIL is a subsidiary of Suzuki Motor Corporation of Japan. The Japanese car major holds 56.2% stake in MSIL. The company has manufacturing plants in Gurgaon and Manesar.

Investment theme

MSIL 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 because of higher rainfall and kharif sowing. We also expect the share of first-time buyers to increase going forward, aided by preference for personal transportation. MSIL is expected to sustain its dominant market share, despite intense competition in the PV segment, aided by its strong product portfolio and position, brand appeal, and ability to launch new models frequently. MSIL 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 a value-for-money product company is likely to remain intact due to its products' best fuel efficiency and lower maintenance cost. In addition, the high resale value of its products attracts customers. Moreover, MSIL has the strongest distribution network and rural penetration in the PV segment that drives its revenue growth. We expect MSIL to be the beneficiary of rising rural demand, driven by its reach and low maintenance services costs.

Key Risks

- MSIL has a weak SUV portfolio and can restrict growth once urban demand comes back strongly. However, we are more positive on rural demand and believe MSIL to be the beneficiary.
- Rising input prices may impact margins, if rising commodity prices could not be passed on to customers. In a scenario of price competition, MSIL's margin may get impacted negatively.
- Any significant delay in improvement of chips shortage could affect our volume estimates.

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 shareholders

Sr. No.	Holder Name	Holding (%)
1	Suzuki Motor Corp	56.4
2	Life Insurance Corp of India	5.3
3	SBI Funds Management Pvt. Limited	2.5
4	Icici Prudential	1.3
5	JP Morgan Chase & Co	1.6
6	Kuwait Investment Authority Fund	1.1

Source: Bloomberg

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 detoriating 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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