Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Maruti Suzuki India Ltd

Strong performance in Q2; New launches to drive growth

Automobiles	Sharekhan code: MARUTI
Reco/View: Buy ↔	CMP: Rs. 9,494 / Price Target: Rs. 10,965 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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 Aug 08, 2022

Medium Risk

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

Source: Morningstar

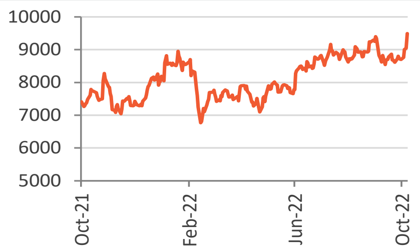
Company details

Market cap:	Rs. 2,86,795 cr
52-week high/low:	Rs. 9,548 / 6,540
NSE volume: (No of shares)	6.53 lakh
BSE code:	532500
NSE code:	MARUTI
Free float: (No of shares)	13.2 cr

Shareholding (%)

Promoters	56.4
FII	21.9
DII	18.2
Others	3.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.5	10.2	20.5	28.1
Relative to Sensex	2.6	2.7	17.0	29.5

Sharekhan Research, Bloomberg

Summary

- Maruti Suzuki India Limited (MSIL) reported a strong set of numbers for Q2FY2023, led by volume growth, operating leverage benefits, and softening of raw-material prices.
- MSIL's market share in the SUV segment is set to improve, given the initial success of Brezza and Grand Vitara. The company plans more launches in the SUV segment going forward.
- Earnings are expected to post a 64.3% CAGR during FY2022-FY2024E, driven by a 21.2% revenue CAGR and a 470-bps improvement in EBITDA margin.
- The stock trades at P/E of 28.2x and EV/EBITDA of 20.6x on FY2024E earnings estimates. We reiterate our Buy rating on the stock with a revised PT of Rs. 10,965, factoring gains in market shares through refreshed and new launches.

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 improve retail sales going forward. The company reported a strong set of numbers in Q2FY2023, led by volume growth, operating leverage benefits, and softening of raw-material prices. Revenue, EBITDA, and PAT grew by 12.9% q-o-q, 44.8% q-o-q, and 103.6% q-o-q, respectively. EBITDA margin expanded by 200bps q-o-q to 9.3% in Q2FY2023, led by operating leverage benefits, favourable foreign exchange movement, cost reductions, and softening of raw-material prices, partially offset by higher advertisement expenses. We expect margins to improve to double digits, led by stable commodity prices, improving product mix, and operating leverage benefits. 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. Pending orders from customers remain high at ~4.1 lakh units, led by strong demand and ESU supply constraints, which are easing. Earnings are expected to post a 64.3% CAGR during FY2022-FY2024E, driven by a 21.2% revenue CAGR and a 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, successful new launches, and focus on green technology. We reiterate our Buy recommendation on the stock price with a revised price target (PT) of Rs. 10,965.

Key positives

- Net revenue improved by 45.7% y-o-y to Rs. 29,931 crore, led by 36.3% growth in volumes and 6.9% growth in average realisation. During Q2FY2022, the company's sales were severely impacted by chips shortage.
- Pending customer orders stood at about 412,000 vehicles at the end of Q2FY2023, out of which about 1,30,000 vehicle pre-bookings are for the recently launched models. Mid-sized SUV Grand Vitara has received more than 75,000 bookings since its launch, with significant bookings of its top variants.
- EBITDA margin expanded by 200bps q-o-q to 9.3% in Q2FY2023, led by operating leverage benefits, favourable foreign exchange movement, cost reductions, and softening of raw-material prices, partially offset by higher advertisement expenses.

Key negatives

- Other operating expenditures outpaced revenue growth due to increased royalty payment, advertisement spend, manufacturing costs, and expenditure associated with scaling of operations.

Management Commentary

- Demand remains robust with management expecting itsmarket share in SUV segment to improve, led by the success of new launches and expected new launches in the segment.
- The company expects raw-material prices to remain stable in the near term.
- Management continues to focus on the SUV segment, CNG variants, and EV product development.
- The share of the top variants for its key models is attracting customers, improving the company's average sales realisation.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 10,965: 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 4.1 lakh units, out of which about 1.3 lakh vehicle pre-bookings are for recently launched models. 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 better products mix, operating leverage benefits, and cost-control measures. We stay positive on the company, led by its structural growth outlook, healthy balance sheet, and comfortable valuations. The stock is trading at P/E of 28.2x and EV/EBITDA of 20.6x on FY2024E earnings estimates. We reiterate our Buy rating on the stock with a revised price target (PT) of Rs. 10,965, factoring gains in market shares through refreshed and new launches.

Key Risks

Significant delay in the improvement of chips shortage could affect our volume estimates. Moreover, failure of new launches and increasing CNG prices could affect our volume estimates.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Net sales	88,296	1,10,905	1,29,649	1,45,270
Growth (%)	25.5	25.6	16.9	12.0
EBITDA	5,662	11,294	14,380	16,444
EBIDTA %	6.4	10.2	11.1	11.3
PAT	3,766	7,812	10,164	11,667
Growth (%)	(11.0)	107.4	30.1	14.8
FD EPS (Rs)	124.7	258.6	336.5	386.2
P/E (x)	76.1	36.7	28.2	24.6
P/B (x)	5.3	4.8	4.3	3.8
EV/EBITDA (x)	51.0	25.6	20.6	18.0
RoE (%)	7.0	13.1	15.3	15.6
RoCE (%)	8.0	16.0	18.6	19.0

Source: Company; Sharekhan estimates

Key highlights of Q2FY2023 results and conference call

Strong performance in Q2FY2023: MSIL reported a strong set of numbers in Q2FY2023, led by volume growth, operating leverage benefits, and softening of raw-material prices. Revenue, EBITDA, and PAT grew by 12.9% q-o-q, 44.8% q-o-q, and 103.6% q-o-q, respectively. Net revenue improved by 45.7% y-o-y to Rs. 29,931 crore, led by 36.3% growth in volumes and 6.9% growth in average realisation. The increase in average realisation was on account of price hikes taken by the company during the year. The company was also benefitted by favourable currency movement. Moreover, the company witnessed a 2.1% q-o-q improvement in average sales realisation, aided by improved product mix (lower share of Alto and higher share of Brezza) and full impact of vehicle price increase in Q1FY2023. During Q2FY2022, the company's sales were severely impacted by chips shortage. EBITDA margin expanded by 200 bps q-o-q to 9.3% in Q2FY2023, led by operating leverage benefits, favourable foreign exchange movement, cost reductions, and softening of raw-material prices, partially offset by higher advertisement expenses. Other operating expenditure outpaced revenue growth due to increased royalty payment, advertisement spend, manufacturing costs, and expenditure associated with scaling of operations. As a result, EBITDA and PAT were up by 224% and 334% to Rs. 2,769 crore and Rs. 2,062 crore, respectively, on a lower base.

Management outlook: Demand scenario remains robust with pending deliveries of more than 4.1 lakh vehicles, including pre-bookings of 1.3 lakh units of recently launched models. Alto and Baleno continue to do well during Q2FY2023. 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 Q2FY2023. The share of the top variants for its key models is attracting customers, improving the company's average sales realisation.

Exports stay buoyant: Management expects exports to be a key growth driver going forward, given improving scenario in other geographies. Exports remained robust during Q2, with exports improving 6.4% y-o-y to 63,195 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 strong volume growth. Earnings are expected to post a 64.3% CAGR during FY2022-FY2024E, driven by a 21.2% revenue CAGR and a 470-bps improvement in EBITDA margin.

Results (Standalone) Rs cr

Particulars	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
Revenues	29,930.8	20,538.9	45.7	26,499.8	12.9
Operating Expenses	27,161.9	19,684.0	38.0	24,587.7	10.5
EBIDTA	2,768.9	854.9	223.9	1,912.1	44.8
Depreciation	722.6	756.1	(4.4)	651.4	10.9
Interest	30.5	22.5	35.6	27.4	11.3
Other Income	612.5	522.7	17.2	88.5	592.1
PBT	2,628.3	599.0	338.8	1,321.8	98.8
Tax	566.8	123.7	358.2	309.0	83.4
Adjusted PAT	2,061.5	475.3	333.7	1,012.8	103.5
EPS	68.3	15.7	333.7	33.5	103.6

Source: Company, Sharekhan Research

Key Ratios (Standalone)

Particulars	Q2FY23	Q2FY22	YoY (bps)	Q1FY23	QoQ (bps)
Gross margin (%)	26.9	24.2	270	25.4	150
EBIDTA margin (%)	9.3	4.2	510	7.2	200
EBIT margin (%)	6.8	0.5	640	4.8	210
Net profit margin (%)	6.9	2.3	460	3.8	310
Effective tax rate (%)	21.6	20.7	90	23.4	-180

Source: Company, Sharekhan Research

Volume Analysis **(Rs. per vehicle)**

Particulars	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
Volumes	5,17,395	3,79,541	36.3	4,67,931	10.6
Revenue/Vehicle	5,78,490	5,41,151	6.9	5,66,319	2.1
RMC/Vehicle	4,22,890	4,10,417	3.0	4,22,502	0.1
Gross profit/Vehicle	1,55,601	1,30,734	19.0	1,43,816	8.2
Operating exp/Vehicle	5,24,974	5,18,626	1.2	5,25,456	(0.1)
EBITDA/Vehicle	53,516	22,525	137.6	40,863	31.0
PAT/Vehicle	39,844	12,523	218.2	21,644	84.1

Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - 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.

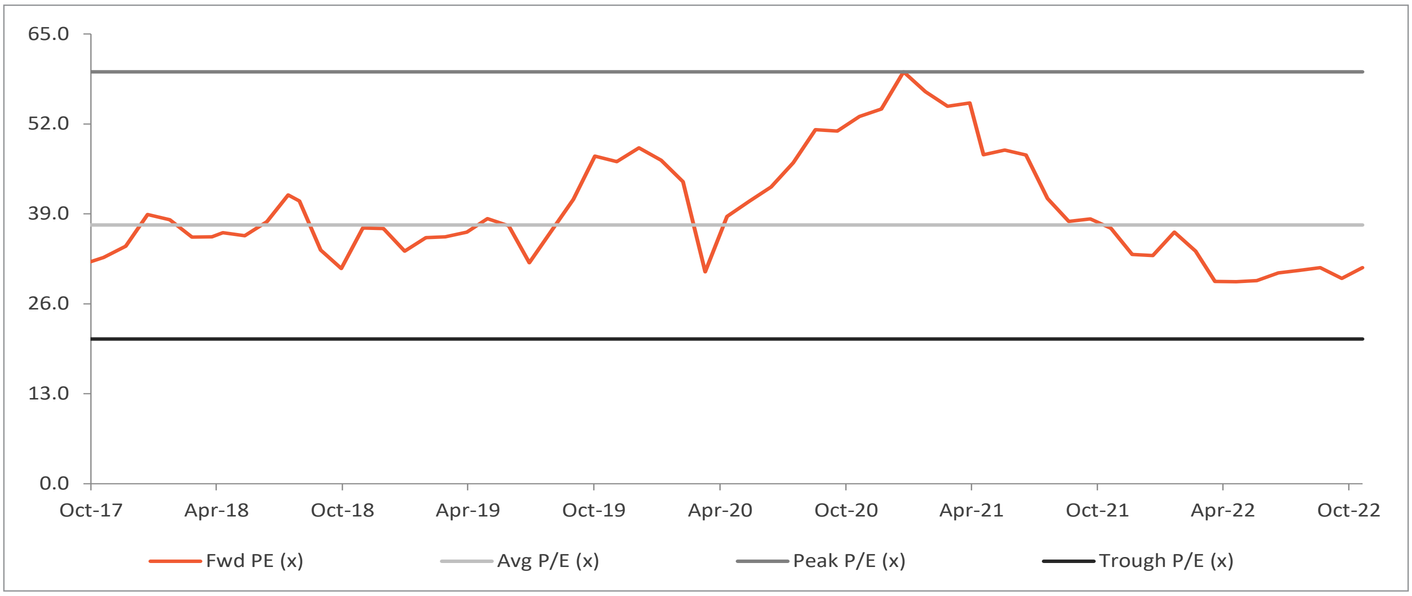
Company outlook - Strong earnings growth from the core business

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, 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. 10,965

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 4.1 lakh units, out of which about 1.3 lakh vehicle pre-bookings are for recently launched models. 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 better products mix, operating leverage benefits, and cost-control measures. We stay positive on the company, led by its structural growth outlook, healthy balance sheet, and comfortable valuations. The stock is trading at P/E of 28.2x and EV/EBITDA of 20.6x on FY2024E earnings estimates. We reiterate our Buy rating on the stock with a revised PT of Rs. 10,965, factoring gains in market shares through refreshed and new launches.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs/ Share)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Maruti Suzuki	9,494	76.1	36.7	28.2	51.0	25.6	20.6	8.0	16.0	18.6
M&M	1,311	30.5	24.9	18.2	22.0	16.1	11.6	14.6	17.1	20.8
Tata Motors	410	NA	22.2	12.9	8.3	5.8	4.5	1.2	5.7	13.7

Source: Company; Sharekhan Research

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 a 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 tier-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 a 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 stronghold 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, which drives its revenue growth. We expect MSIL to be the beneficiary of rising rural demand, driven by its reach and low maintenance service costs.

Key Risks

- MSIL has a weak SUV portfolio and can restrict growth once urban demand comes back strongly. However, we are more positive about rural demand and believe MSIL to be the main beneficiary.
- Rise in 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 the 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

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. Ltd.	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

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.