Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Maruti Suzuki India Ltd

Driving in top gear

Automobiles	Sharekhan code: MARUTI
Reco/View: Buy ↔	CMP: Rs. 9,023	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

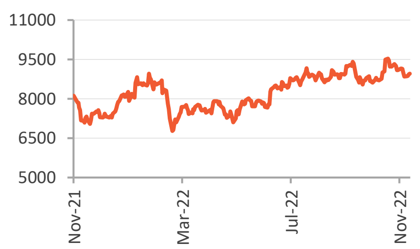
Company details

Market cap:	Rs. 2,72,567 cr
52-week high/low:	Rs. 9,769 / 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	2.9	3.8	18.3	10.3
Relative to Sensex	-2.1	-2.1	3.4	5.9

Sharekhan Research, Bloomberg

Summary

- We reiterate our Buy rating on Maruti Suzuki India Limited (MSIL), with an unchanged PT of Rs. 10,965, factoring gains in market shares through refreshed and new launches. The stock trades at P/E of 26.8x and EV/EBITDA of 19.6x on FY2024E earnings estimates.
- Management bets on launches of SUVs and CNG variants to regain its market share. Company continues to strengthen its distribution network through increasing penetration.
- Easing constraints of electronic components, softening commodity prices and positive operating leverage likely to keep earnings growth momentum intact.
- 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 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, the easing of electronic components shortage is expected to improve retail sales going forward. Easing constraints of electronic components, softening commodity prices and positive operating leverage likely to keep earnings growth momentum intact. Management bets on launches of SUVs and CNG variants to regain its market share. The company continues to strengthen all its distribution network through increasing presence penetration. Exports are also witnessing robust growth, especially in Africa, taking advantage of cooperation with Toyota. Order book remains high at ~3.9 lakh units due to gaining traction amid supply constraints. 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, new launches, and a focus on green technology. Stock trading at P/E of 26.8x and EV/EBITDA of 19.6x its FY24E estimates. We reiterate our Buy recommendation on the stock price with an unchanged price target (PT) of Rs. 10,965.

- **MSIL bets on new launches and strengthening distribution network for regaining market share:** MSIL's recent launches of Brezza and Grand Vitara is gaining strong traction among the buyers, with pending orders of ~73,000 units of Brezza and ~56,000 units of Grand Vitara as on October-end. MSIL has built a strong portfolio of CNG variants, now contributing to ~30% of the orderbook.
- **Well positioned to execute its green mobility roadmap:** Maruti has a strong balance sheet with cash reserves more than Rs. 30,000 crores. We expect MSIL is well positioned to expedite its electric vehicle (EV) plans with the internal accrual itself. The management is working on green mobility road map, which comprises of electric vehicles, hydrogen fuel cell vehicles, flexi fuel vehicles and CNG. The company has indicated strengthening its hybrid models and expects to launch EVs by 2025.
- **Exports well poised to grow strongly:** Exports to be a long-term key growth driver for the company, especially in Africa. Exports grew 148% y-o-y in FY22 25% in H1FY23. Management expects export volumes to maintain its positive traction, also supported by collaboration with Toyota.

Our Call

Valuation – Maintain Buy with an unchanged 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 3.9 lakh units, of which ~30% is CNG variants and ~33% is SUVs. We expect growth momentum to continue in FY2023E, driven by the 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 product 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 a P/E of 26.8x and EV/EBITDA of 19.6x 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

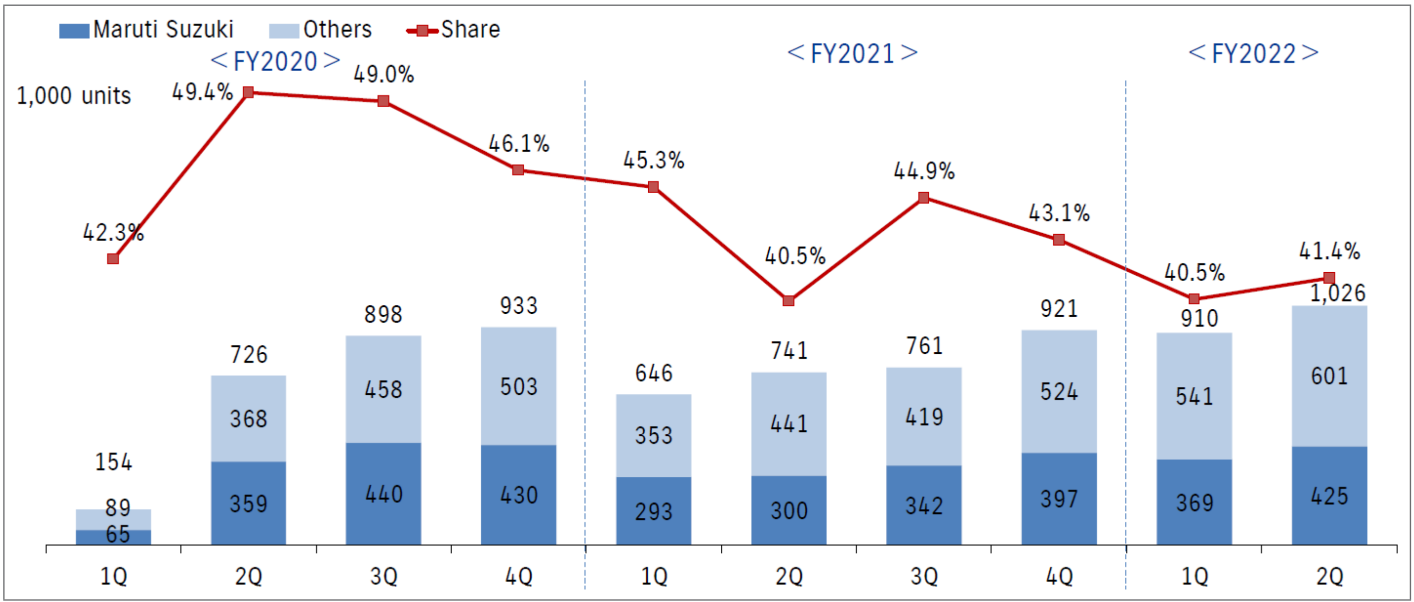
Particulars	FY21	FY22	FY23E	FY24E	FY25E
Net sales	70,333	88,296	1,10,905	1,29,649	1,45,270
Growth (%)	(7.0)	25.5	25.6	16.9	12.0
EBITDA	5,287	5,662	11,294	14,380	16,444
EBITDA %	7.5	6.4	10.2	11.1	11.3
PAT	4,230	3,766	7,812	10,164	11,667
Growth (%)	(25.1)	(11.0)	107.4	30.1	14.8
FD EPS (Rs)	140.0	124.7	258.6	336.5	386.2
P/E (x)	64.4	72.4	34.9	26.8	23.4
P/B (x)	5.3	5.0	4.6	4.1	3.6
EV/EBITDA (x)	51.4	48.5	24.4	19.6	17.1
RoE (%)	8.2	7.0	13.1	15.3	15.6
RoCE (%)	9.4	8.0	16.0	18.6	19.0

Source: Company; Sharekhan estimates

Maruti Suzuki India Ltd. (MSIL) held an investor conference to update Suzuki's India business. The management was positive on regaining its lost market share over the last couple years, aided by new launches, focus on greener technologies and easing supply constraints of electronic components. The key highlights of the company's investor meet are as follows,

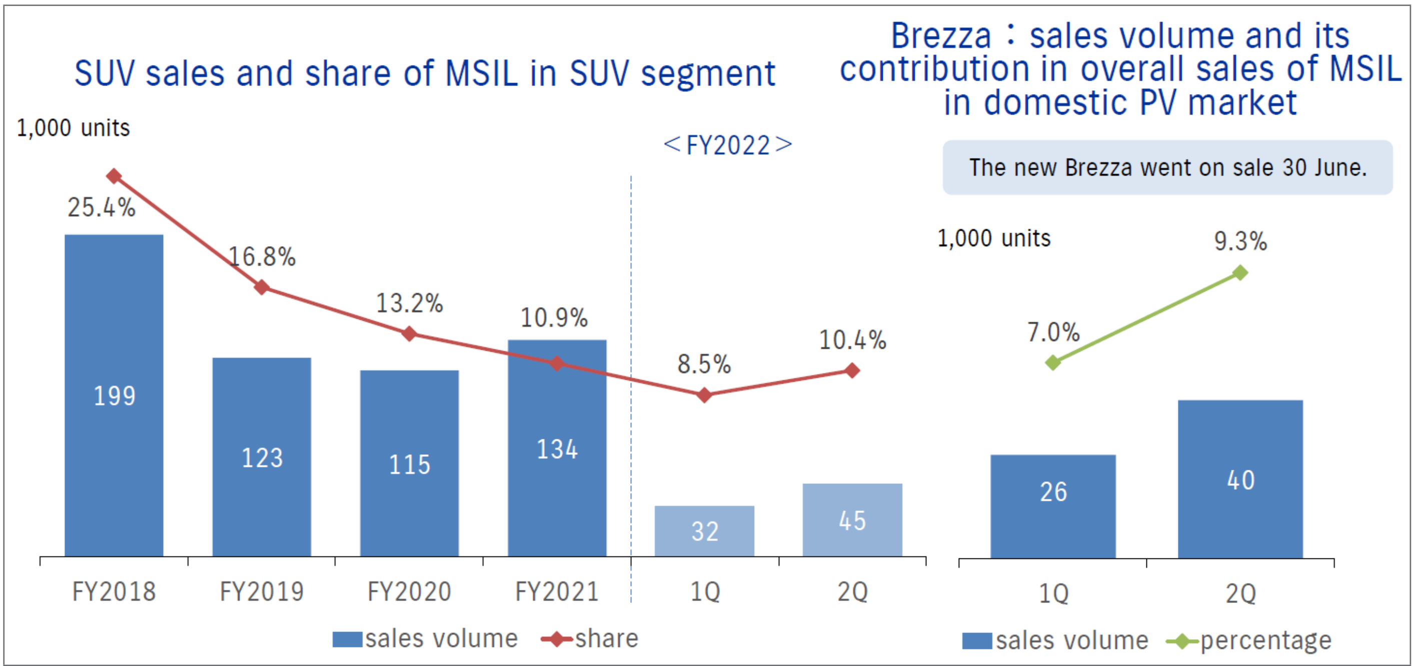
MSIL bets on new launches and strengthening distribution network for regaining market share: MSIL's recent launches of Brezza and Grand Vitara is gaining strong traction among the buyers, with pending orders of ~73,000 units of Brezza and ~56,000 units of Grand Vitara as on October-end. MSIL has built a strong portfolio of CNG variants, now contributing to ~30% of the order book. 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 realization.

MSIL's market starts to in Passenger vehicle segment



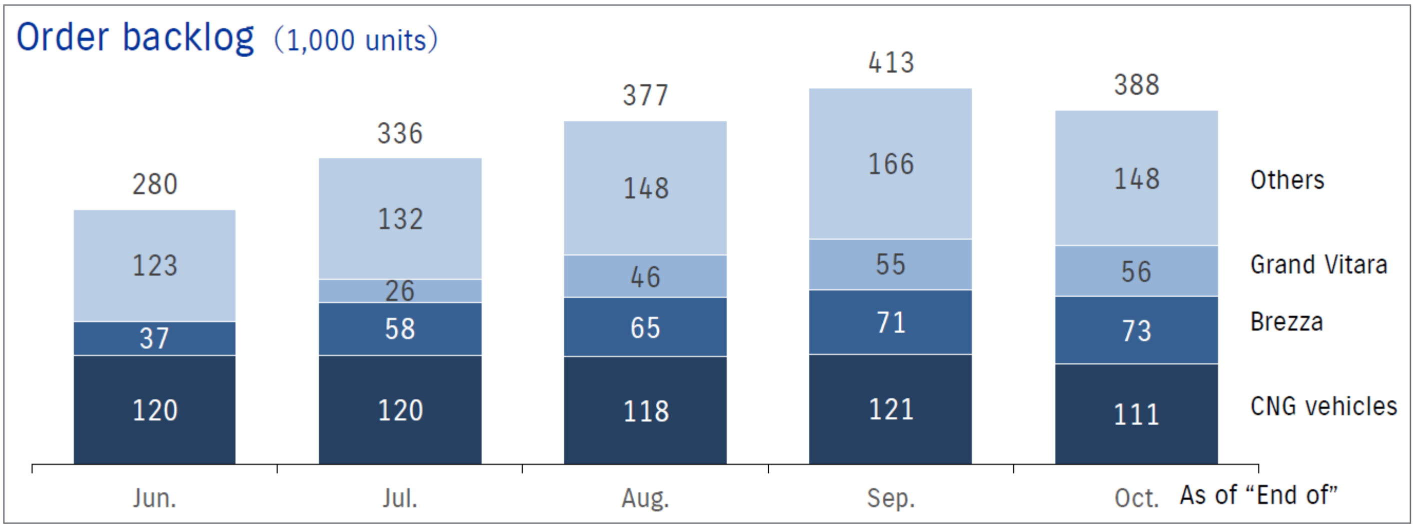
Source: Company IR PPT; Sharekhan Research

Management bets on its new SUV launches



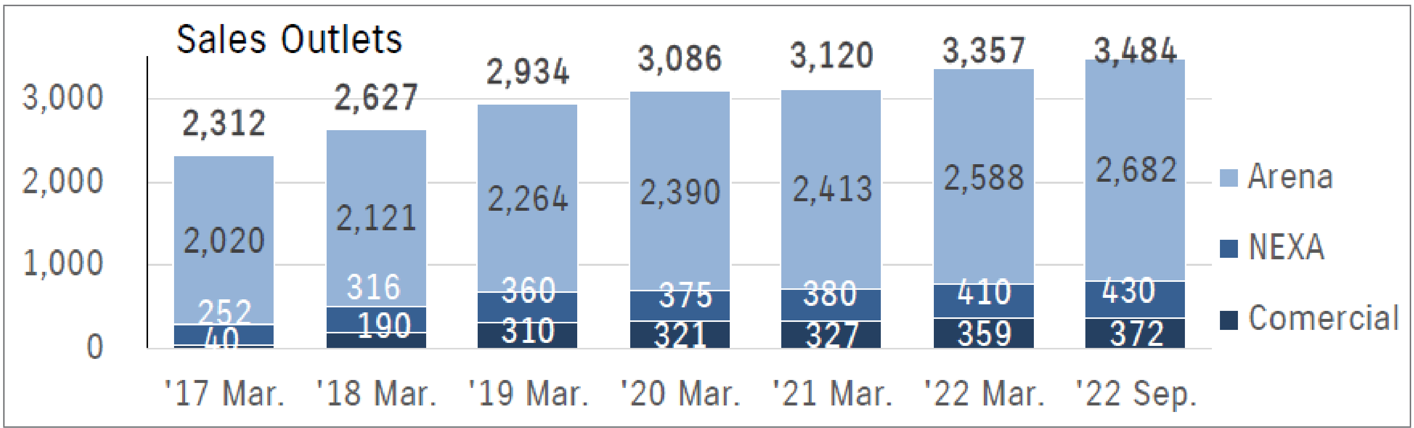
Source: Company, Sharekhan Research

Pending orders remain high led by strong demand for SUV and CNG models, amid supply constraints



Source: Company IR PPT; Sharekhan Research

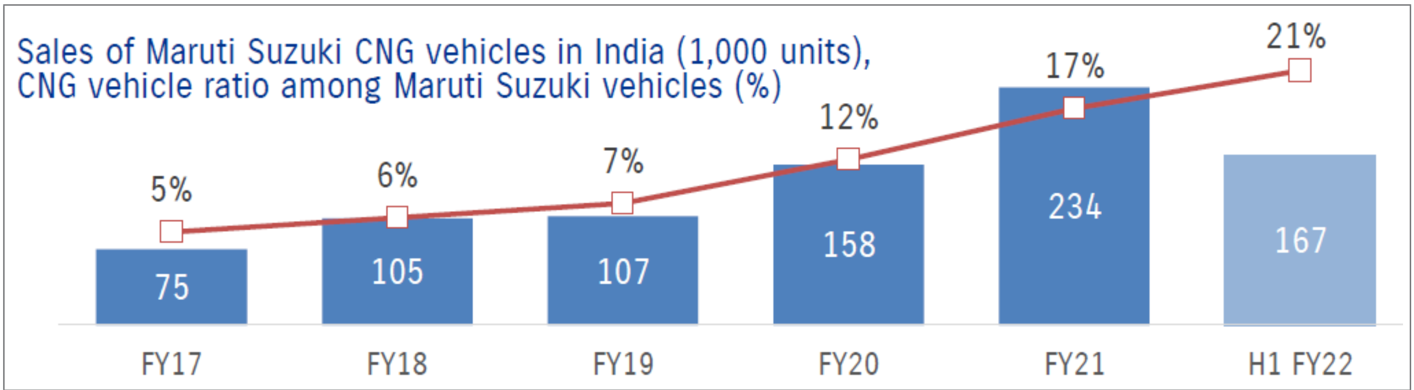
Expanding distribution network remains prime focus for MSIL



Source: Company IR PPT; Sharekhan Research

CNG models continues to drive growth: MSIL has demonstrated strong believe in CNG and is an undisputed leader in the sub-segment, with ~71% market share during April-September 2022. The company has launched CNG variants in twelve of its passenger cars and one commercial vehicle. The government's focus on increasing CNG stations in pan India will continue to drive growth of CNG vehicles in India. There are currently 4,500 CNG stations in the country, which is expected to ramp up to 9,000 CNG stations over the next two years.

Increasing preference for MSIL's CNG variants



Source: Company IR PPT; Sharekhan Research

Well positioned to execute its green mobility roadmap: Maruti has a strong balance sheet with cash reserves more than Rs. 30,000 crore. We expect MSIL is well positioned to expedite its electric vehicle (EV) plans with the internal accrual itself. The management is working on green mobility road map, which comprises electric vehicles, hydrogen fuel cell vehicles, flexi fuel vehicles and CNG. The company has indicated strengthening its hybrid models and expects to launch EVs by 2025. The company has currently installed capacity of 22.5 lakh units (Gurgaon plant – 7 lakh units; Manesar plant – 8 lakh units; and Gujarat plant – 7.5 lakh units) and have plans to add another capacity of 1 lakh units at its Manesar plant. The company has purchased land for new greenfield project in Kharkhoda, Haryana. In the initial phase, the plant will have an additional capacity of 2.5 lakh units with an investment of Rs11,000 crore. The commercial operation is expected to start in 2025. The company has also started mass production of battery modules for Suzuki Hybrid in October 2021 for exports and Mild Hybrid in December 2021. MSIL's parent company, Suzuki Corporation, has signed an MOU with the State of Gujarat to invest Rs10,440 crore mainly for local manufacturing of electric vehicles (BEV) and BEV batteries.

Suzuki committed to support India's drive for carbon neutrality goals

No	Signees of MOU with the State of Gujarat	Description	Investment (Billion Rs)	Planned year
1	Suzuki Motor Gujarat Private Limited (SMG)	Increasing production capacity for BEV manufacturing	31	2025
2		Construction of plant for BEV batteries (land neighboring to SMG) Foundation stone Laying Ceremony on 28 August 2022	73	2026
3	Maruti Suzuki Toyotsu India Private Limited MSTI	Construction of vehicle recycling plant	0.45	2025

Source: Company IR PPT; Sharekhan Research

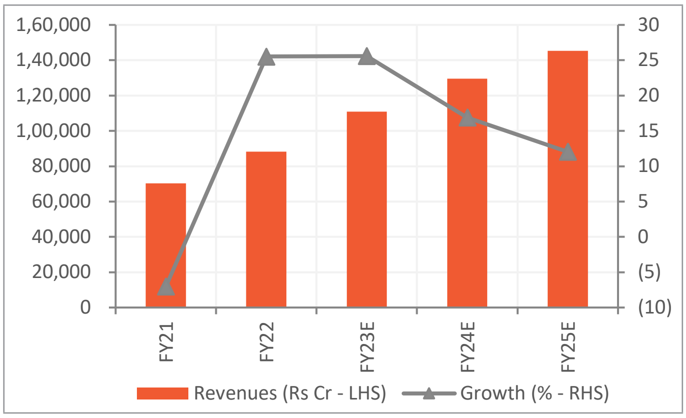
Exports well poised to grow strongly: Exports are to be a long-term key growth driver for the company, especially in Africa. Exports grew 148% y-o-y in FY22 25% in H1FY23. Management expects export volumes to maintain its positive traction, also supported by collaboration with Toyota. The management expects export to be a key growth driver going forward, given the improving scenario in other geographies. The company is operating at full capacity, which will keep driving profitability. The company is receiving a strong response for its Jimny SUV in the export markets. The 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 performance in Q2FY2023: MSIL reported a robust 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. 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 payments; advertisement spend, manufacturing costs, and expenditures 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.

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. 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.

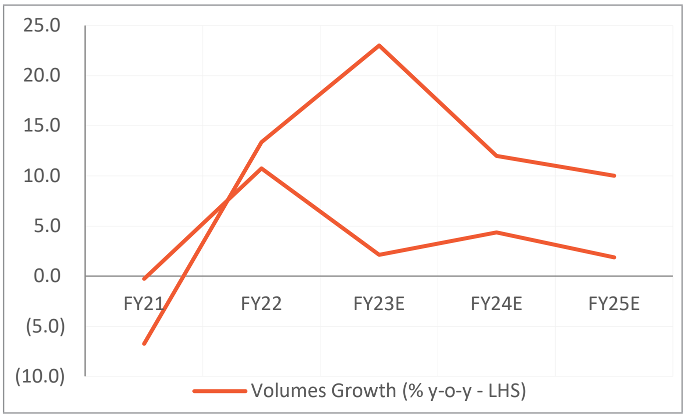
Financials in charts

Revenue and growth trend



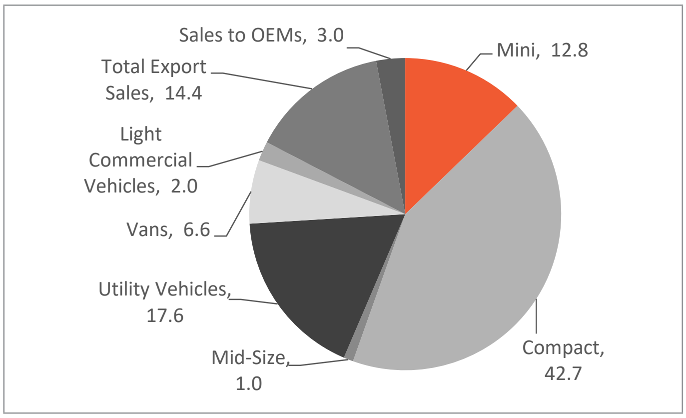
Source: Company, Sharekhan Research

Volume and realisation trend



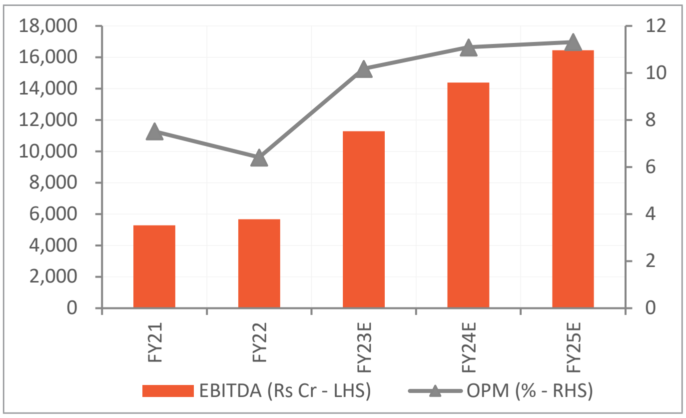
Source: Company, Sharekhan Research

Product mix



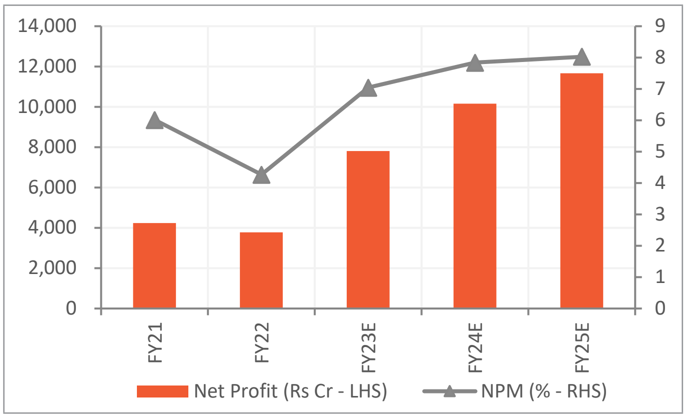
Source: Company, Sharekhan Research

EBITDA - OPM Trend



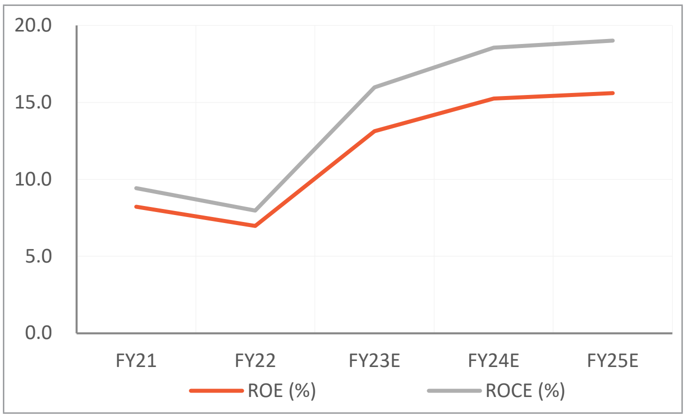
Source: Company, Sharekhan Research

Net profit and NPM Trend



Source: Company, Sharekhan Research

Return Ratios trend



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. Strongsupply-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.

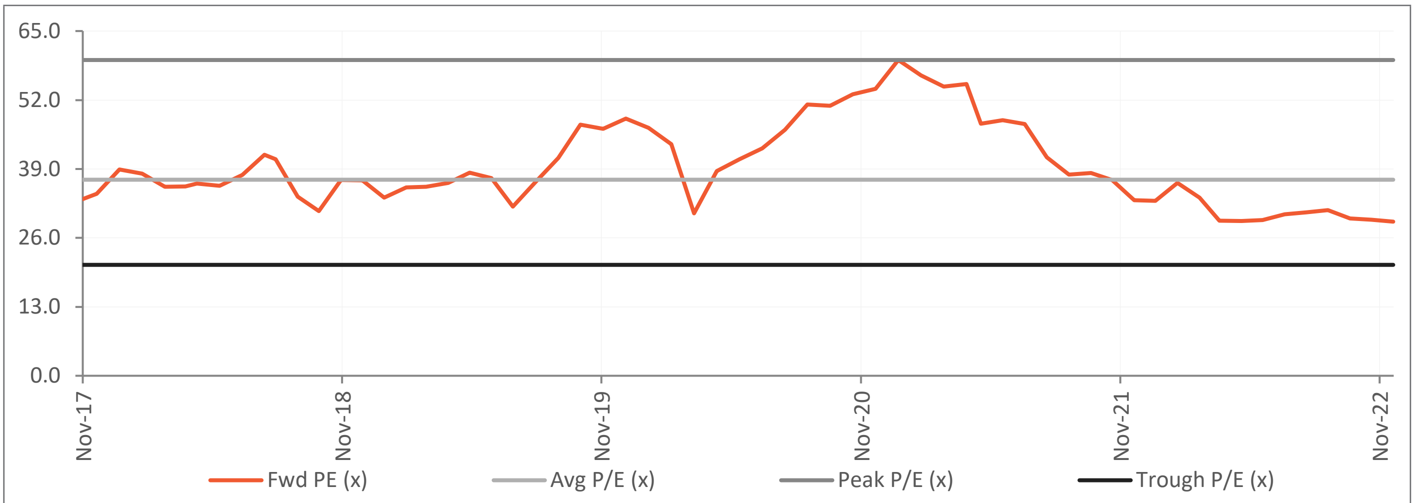
■ Company Outlook – Strong earnings growth from the core business

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. New product launches will aid volume growth, 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 an unchanged PT of Rs. 10,965

MSIL is expected to witness a recovery in domestic demand with sales volume sustaining growth, despite the near-term challenges of electronic component shortage. Sales enquiries remain strong, with order book currently at more than 3.9 lakh units, out of which ~30% is CNG variants and ~33% is SUVs. We expect growth momentum to continue in FY2023E, driven by the 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 product 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 26.8x and EV/EBITDA of 19.6x 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.

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	9,023	72.4	34.9	26.8	48.5	24.4	19.6	8.0	16.0	18.6
M&M	1,261	29.3	23.9	17.5	21.1	15.4	11.1	14.6	17.1	20.8
Tata Motors	433	NA	23.7	13.8	8.7	6.0	4.8	1.2	5.7	13.7

Source: Company, Sharekhan estimates

About company

MSIL is IIndia'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 Website

Top 6 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

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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 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

Sharekhan

by BNP PARIBAS

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