



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

Updated Dec 08, 2022

22.67

Medium Risk

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

Source: Morningstar

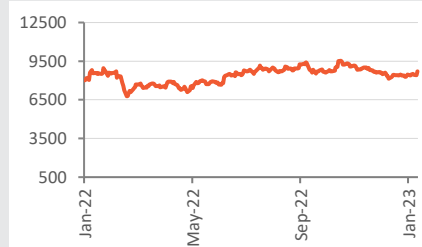
Company details

Market cap:	Rs. 2,72,567 cr
52-week high/low:	Rs. 9,769 / 6,540
NSE volume: (No of shares)	5.79 lakh
BSE code:	532500
NSE code:	MARUTI
Free float: (No of shares)	13.2 cr

Shareholding (%)

Promoters	56.4
FII	21.5
DII	18.3
Others	3.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.8	-0.8	-0.1	8.6
Relative to Sensex	4.9	-2.7	-11.9	7.2

Sharekhan Research, Bloomberg

Maruti Suzuki India Ltd

Looking for a leadership in SUV segment

Automobiles

Sharekhan code: MARUTI

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 8,698

Price Target: Rs. 10,965

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. stock trades at P/E of 22.2x and EV/EBITDA of 16.3x on FY2025E earnings estimates.
- This was the consecutive second quarter when MSIL has registered EBITDA margin above 9% backed by favourable product mix and gross margin expansion.
- Management bets on launches of SUVs and CNG variants to regain its market share. The company continues to strengthen its distribution network through increasing presence penetration.
- Backed by a strong response to its SUVs, the management is looking for a leadership position in SUV segment in coming years.

MSIL came out with a healthy set of numbers in Q3FY2023 as its reported revenue and EBITDA were 6.0 and 6.5% ahead of estimates, respectively, while EBITDA margin at 9.8% came in line with estimates. Its Q3FY23 performance was driven by its ongoing cost reduction efforts, favourable foreign exchange variation, reduction in raw material prices and introduction of new models. The gross margin has expanded on y-o-y as well as on a q-o-q basis. EBITDA margin expanded by 300 bps y-o-y and to 9.8% led by 260 bps y-o-y bps expansion in gross margin. Similarly, 50 bps q-o-q expansion in EBITDA margin was supported by 40 bps q-o-q expansion in gross margin. With this operating performance, the reported PAT grew by 132.5% y-o-y and 68.3% q-o-q. We continue to maintain our positive view on MSIL owing to its new product launch strategy and favourable volume growth cycle in the domestic PV segment. We expect MSIL's market share to improve, led by rising demand from rural and semi-urban markets, improving supply constraints, new launches, and customer-centric marketing strategy. Stock trading at P/E of 22.2x and EV/EBITDA of 16.3x its FY24E estimates. We reiterate our Buy recommendation on the stock price with an unchanged price target (PT) of Rs. 10,965.

Key positives

- Gross margin expanded on y-o-y as well as on q-o-q basis resulted into EBITDA margin expansion. The gross margin has expanded by 260 bps y-o-y and 40 bps q-o-q, which translated into 300 bps y-o-y and 50 bps q-o-q expansion in EBITDA margin.
- ASPs has increased by 15.5% y-o-y and 7.8% q-o-q led by better product mix
- Dealer inventory at the end of Q3FY2023 stood at 5 days owing to strong retail sales
- Order book stood at 363k units reflecting strong demand in the market.

Key negatives

- Lost production of 46k units in Q3FY2023 due to shortage of semiconductor chips

Management Commentary

- The management is looking for a leadership position in the SUV segment backed by the success of its new launches
- The export market is offering a huge opportunity to grow its volumes
- New products are getting a healthy response in the market

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 10,965: Post registering healthy operating performance, the management has shared a healthy demand outlook in the near term, given MSIL is enjoying an order book of 363k units and dealers inventory at 5 days at the end of Q3FY2023. The Q3FY2023 performance was impacted due to shortage of chips and lower working days. The performance in Q4FY2023 is expected to be better than Q3FY2023 led by a gradual improvement in supply issues. With new product launches and RM cost tailwind, MSIL is assumed to be in a better place to register improved performance in coming quarters. 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 22.2x and EV/EBITDA of 16.3x on FY2025E earnings estimates. We reiterate our Buy rating on the stock with an unchanged 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)

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Net sales	70,333	88,296	1,18,475	1,33,977	1,50,111
Growth (%)	(7.0)	25.5	34.2	13.1	12.0
EBITDA	5,287	5,662	10,647	14,533	16,648
EBITDA %	7.5	6.4	9.0	10.8	11.1
PAT	4,230	3,766	7,693	10,449	11,829
Growth (%)	(25.1)	(11.0)	104.3	35.8	13.2
FD EPS (Rs)	140.0	124.7	254.7	345.9	391.6
P/E (x)	62.1	69.8	34.2	25.1	22.2
P/B (x)	5.1	4.9	4.4	3.9	3.5
EV/EBITDA (x)	49.5	46.8	24.9	18.8	16.3
RoE (%)	8.2	7.0	12.9	15.7	15.8
RoCE (%)	9.4	8.0	15.7	19.0	19.2

Source: Company; Sharekhan estimates

Key Concall highlights

- ♦ **Healthy demand continues:** The management observes healthy demand in its key markets. The rural segment contributes 66% to its domestic demand. The company has witnessed a healthy uptick in retail volumes during Q3FY23 as the dealer stock at the end of Q3FY2023 stood at 5 days. Further, it is enjoying an order book of 363k units. Its newly launched products are receiving a healthy response in the market. Retail volumes in Q3FY23 stood at 480k units.
- ♦ **Looking for a leadership position in the SUV segment;** Though MSIL has been a market leader in the passenger car segment it has been expanding its presence in the SUV segment. Based on the healthy response to its newly launched SUVs, the company is aiming for a market leadership position in SUV segment also. Despite a lacklustre performance in entry-level car segment due to macro headwinds, the improved product mix on the successful launch of new SUVs has supported its ASPs and hence the profitability in Q3FY2023.
- ♦ **Exports:** The company is continuing to be optimistic about its export volume growth and indicating that the demand in the export market is surpassing the supply due to production constraint. Recently it has started exporting Grand Vitara and hopeful of improvement in the export mix going forward

Others

- ♦ Royalty rate stood at 3.9% in Q3FY2023 compared to 3.8% in Q2FY2023
- ♦ Average discount in Q3FY2023 stood at Rs 18,291
- ♦ The price hikes due to implementation of BSVI norms would be less in gasoline segment compared to diesel segment.

Results (Standalone)

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Revenues	29,044	23,246	24.9	29,931	(3.0)
Operating Expenses	26,211	21,687	20.9	27,162	(3.5)
EBIDTA	2,833	1,559	81.7	2,769	2.3
Depreciation	710	640	11.0	723	(1.7)
Interest	30	25	17.5	31	(3.0)
Other Income	861	328	162.4	613	40.5
PBT	2,954	1,222	141.8	2,628	12.4
Tax	603	211	186.4	567	6.4
Adjusted PAT	2,351	1,011	132.5	2,062	14.1
EPS	77.9	33.5	132.5	68.3	14.1

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Gross margin (%)	27.3	24.7	260	26.9	40
EBIDTA margin (%)	9.8	6.7	300	9.3	50
EBIT margin (%)	7.3	4.0	340	6.8	50
Net profit margin (%)	8.1	4.4	370	6.9	120
Effective tax rate (%)	20.4	17.2	320	21.6	(120)

Source: Company; Sharekhan Research

Volume Analysis

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Volumes	4,65,911	4,30,668	8.2	5,17,395	(10.0)
Revenue/Vehicle	6,23,387	5,39,766	15.5	5,78,490	7.8
RMC/Vehicle	4,53,001	4,06,417	11.5	4,22,890	7.1
Gross profit/Vehicle	1,70,387	1,33,349	27.8	1,55,601	9.5
Operating exp/Vehicle	5,62,580	5,03,567	11.7	5,24,974	7.2
EBITDA/Vehicle	60,808	36,200	68.0	53,516	13.6
PAT/Vehicle	50,467	23,482	114.9	39,844	26.7

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. Strong supply-side headwinds related to semi-conductor chip shortage are expected to slow down domestic PV sales to 17-20% in FY2023E. We expect a 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.

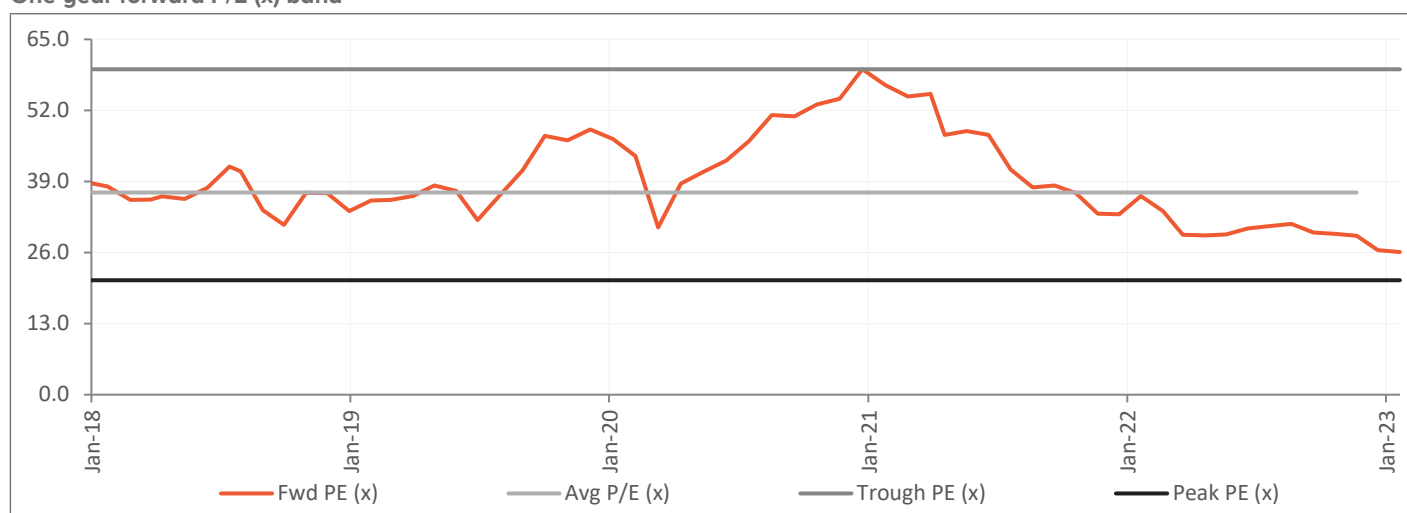
■ Company Outlook – Strong earnings growth from the core business

Management was cautiously optimistic on the demand outlook for domestic and 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 the income levels of individuals, firms, and corporates will likely keep demand strong in the medium term. However, near-term growth would be affected by the 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:

Post registering healthy operating performance, the management has shared a healthy demand outlook in the near term, given MSIL is enjoying an order book of 363k units and dealers inventory at 5 days at the end of Q3FY2023. The Q3FY2023 performance was impacted due to a shortage of chips and lower working days. The performance in Q4FY2023 is expected to be better than Q3FY2023 led by gradual improvement in supply issues. With new product launches and RM cost tailwind, MSIL is assumed to be in a better place to register improved performance in coming quarters. We stay positive about the company, led by its structural growth outlook, healthy balance sheet, and comfortable valuations. The stock is trading at a P/E of 22.2x and EV/EBITDA of 16.3x on FY2025E earnings estimates. We reiterate our Buy rating on the stock with an unchanged 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: 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	8,699	69.8	34.2	25.1	46.8	24.9	18.8	8.0	15.7	19.0
M&M	1,323	30.8	25.1	18.3	22.2	16.3	11.7	14.6	17.1	20.8
Tata Motors	422	NA	22.9	13.3	8.5	5.9	4.6	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 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 a 56.2% stake in MSIL. The company has manufacturing plants in Gurgaon and Manesar.

Investment theme

MSIL will likely 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 will likely 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 returns 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 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Suzuki Motor Corp	56.4
2	Life Insurance Corp of India	3.4
3	SBI Funds Management Pvt. Limited	2.9
4	Icici Prudential	2.4
5	Vanguard Group	1.7
6	Blackrock	1.4
7	UTI AMC	1.2
8	State of Kuwait	1.1
9	Kotak Mahindra AMC	1.0
10	Capital Group	1.0

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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