Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Maruti Suzuki India Ltd

Aiming to outpace industry growth

Automobiles	Sharekhan code: MARUTI

Reco/View: Buy	↔	CMP: Rs. 8,503	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 25.76

Updated Mar 08, 2023

Medium Risk

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

Source: Morningstar

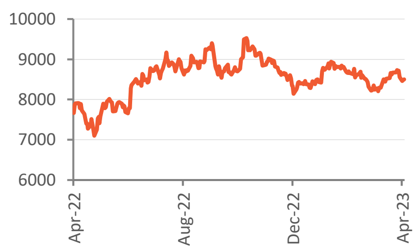
Company details

Market cap:	Rs. 2,56,859 cr
52-week high/low:	Rs. 9,769 / 7,062
NSE volume: (No of shares)	38.5 lakh
BSE code:	532500
NSE code:	MARUTI
Free float: (No of shares)	13.1 cr

Shareholding (%)

Promoters	56.5
FII	21.1
DII	18.7
Others	3.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.3	0.1	-1.3	10.9
Relative to Sensex	-0.5	1.3	-5.4	5.2

Sharekhan Research, Bloomberg

Summary

- Q4FY2023 was the consecutive fourth quarter when Maruti Suzuki India Limited (MSIL) registered sequential improvement in EBITDA margin.
- With an order book of 412,000 units and successful new launches, management is looking to outperform the PV industry's growth in FY2024.
- Management bets on launches of SUVs and CNG variants to regain their market share, while it indicates production challenges in Q1FY2024E.
- We reiterate our Buy rating on MSIL, with an unchanged PT of Rs. 10,965, factoring in market share gains through refreshed and new launches.

Maruti Suzuki India Limited (MSIL) reported in-line performance in Q4FY2023, as revenue was mere 1.1% below estimates and EBITDA margin was 20 bps below estimates. With a 10.5% q-o-q increase in volumes and flat ASPs, revenue increased by 10.3% q-o-q to Rs. 32,048 crore. Gross margin contracted by 60 bps q-o-q to 26.7% as its raw-material (RM) cost includes fixed cost burden for the outsourced products procured from SMG Gujarat and Toyota. However, in support of operating leverage, EBITDA margin expanded by 70 bps q-o-q to 10.5%. With this operating performance, reported PAT increased by 11.6% q-o-q to Rs. 2,623 crore. MSIL has announced a dividend of Rs90/share for FY2023 against Rs60/share in the previous year. Management is looking for a leadership position in the SUV segment in FY2024 and is targeting to outperform the PV industry's growth in FY2024. The PV industry is expected to grow by 5-7% in FY2024, more due to the rise in demand for SUVs, and the entry-level segment is expected to register flat growth in FY2024. 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. We reiterate our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 10,965.

Key positives

- Despite flat ASPs and lack of gross margin expansion, EBITDA margin increased by 70 bps q-o-q to 10.5%.
- The order book stood at 412,000 units (vs. 363,000 units in Q3FY2023) and dealer inventory stood at 2-3 weeks.
- Discount per vehicle came down from Rs. 18,391 in Q3FY2023 to Rs. 13,269 in Q4FY2023.
- Demand from additional buyers and replacement buyers continues to be strong.

Key negatives

- Lost production of 170,000 units in FY2023 due to shortage of semiconductor chips. The chip issue would continue to impact the company's performance in Q1FY2024.
- Gross margin contracted by 60 bps q-o-q.

Management Commentary

- While the PV industry is expected to grow by 5-7% in FY2024, MSIL is expected to outperform the industry on account of successful launches in the SUV segment.
- Demand for entry-level products would remain flat and the PV segment's growth would be driven by strong traction in the SUV segment.
- With growing SUV volumes, management expects ASPs to increase in the coming quarters.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 10,965: Post registering in-line performance, management is looking to outperform the PV industry's growth in FY2024, as it anticipates healthy performance in the SUV segment in FY2024. With a strong order book of 412,000 units, management is optimistic about its performance; however, management indicated about the production challenges in Q1FY2024 due to the shortage of semiconductor chips. Given a strong order book in hand, below-normal dealer inventory, healthy response to new products, and recovery in its EBITDA margin profile, we continue to maintain our positive view on the company. With expectation of a 9.4% volume CAGR and 200 bps expansion in EBITDA margin to 11.4% over FY2023-FY2025E, we expect a 21.3% earnings CAGR. The stock is trading at a P/E of 21.7x and EV/EBITDA of 12.4x 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, the 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	1,17,523	1,34,542	1,48,570
Growth (%)	-7.3	19.5	33.1%	14.5%	10.4%
EBITDA	5,345	5,701	11,008	14,530	16,878
EBIDTA %	7.6	6.5	9.4	10.8	11.4
PAT	4,230	3,766	8,049	10,419	11,836
Growth (%)	-7.3	19.5	113.7%	29.4%	13.6%
FD EPS (Rs)	140.1	124.7	266.5	345.0	391.9
P/E (x)	60.7	68.2	31.9	24.6	21.7
P/B (x)	5.0	4.7	4.3	3.8	3.3
EV/EBITDA (x)	39.7	37.4	19.1	14.4	12.4
RoE (%)	8.2	7.0	13.3	15.2	15.4
RoCE (%)	8.8	8.8	9.1	9.1	8.9

Source: Company; Sharekhan estimates

Concall highlights:

Volume outlook: Looking to outperform the PV industry.

- The PV industry is expected to grow by 5-7% in FY2024 and MSIL targets to outperform the industry's growth in FY2024.
- Entry-level cars are expected to register flat growth in FY2024.
- Order book: The total order book is at 412,000 units. CNG version accounts for one-third of that order book.
- The share of SUVs in the overall PV industry would likely to grow from current levels.
- Demand would be strong from additional car buyers and replacement buyers compared to first-time buyers.
- With a focus on SUVs, ASPs would rise from current levels.
- MSIL would launch its first electric car in FY2025E.
- Capex for FY2024 is Rs. 8,000 crore.

Semiconductor issue: Concerns continue

- MSIL lost production in FY2023 due to chip issue, as it has been a global issue. The chip issue has been impacting various products and players differently. MSIL is following multi-sourcing procurement strategy and minimising chips consumption. Despite that, MSIL is still facing the chip shortage issue.
- The semiconductor content has gone up in a car over the period, on account of premium features and technology. All manufacturers are impacted due to the chip shortage as it has been an industry-wide phenomenon.
- Chip manufacturers allocate chips based on the previous year's performance.
- Q1FY2024 would be challenging quarter due to the ongoing chip issue.

RM cost: Steel prices may go up slightly

- All the fixed costs of Toyota and SMG have been loaded in RM cost.
- Broadly, the RM basket has been constant.
- Yen-related cost inflation is not significant.
- Commodity cost trend has been a mixed bag. Precious material has softened (sodium and palladium have corrected). Steel prices are expected to increase as demand is rising.

Others

- Auto expo-related expenses: Rs. 40 crore
- Discount: Rs. 13,269 in Q4FY2023 vs. Rs. 18,391 in Q3FY2023
- Exports revenue: Rs. 3,900 crore in Q4/Rs. 14,652 crore for FY2023
- SMG production: 1,86,786 units in Q4/6,71,692 units in FY2023
- Dealer inventory: 2- 3 weeks
- Dividend: Rs. 90/share vs. Rs. 60/share in the previous year
- CNG sales in FY2023: 330,000 units

Results (Standalone) Rs cr

Particulars	Q4FY23	Q4FY22	Y-o-Y %	Q3FY23	Q-o-Q %
Revenues	32,048.0	26,740.0	19.9	29,044.3	10.3
Operating Expenses	28,697.7	24,313.2	18.0	26,211.2	9.5
EBIDTA	3,350.3	2,426.8	38.1	2,833.1	18.3
Depreciation	739.2	647.2	14.2	710.1	4.1
Interest	99.1	56.0	77.0	29.6	234.8
Other Income	742.8	474.4	56.6	860.8	(13.7)
PBT	3,254.8	2,198.0	48.1	2,954.2	10.2
Tax	631.2	359.1	75.8	602.9	4.7
Adjusted PAT	2,623.6	1,838.9	42.7	2,351.3	11.6
EPS	86.9	60.9	42.7	77.9	11.6

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q4FY23	Q4FY22	Y-o-Y (bps)	Q3FY23	Q-o-Q (bps)
Gross margin (%)	26.7	26.5	30	27.3	-60
EBIDTA margin (%)	10.5	9.1	140	9.8	70
Net profit margin (%)	8.2	6.9	130	8.1	10
Effective tax rate (%)	19.4	16.3	310	20.4	-100

Source: Company; Sharekhan Research

Volume Analysis

Particulars	Q4FY23	Q4FY22	Y-o-Y %	Q3FY23	Q-o-Q %
Volumes	5,14,907	4,88,830	5.3	4,65,911	10.5
Revenue/Vehicle	6,22,404	5,47,020	13.8	6,23,387	(0.2)
RMC/Vehicle	4,56,148	4,02,322	13.4	4,53,001	0.7
Gross profit/Vehicle	1,66,255	1,44,699	14.9	1,70,387	(2.4)
EBITDA/Vehicle	65,066	49,645	31.1	60,808	7.0
PAT/Vehicle	50,953	37,618	35.4	50,467	1.0

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Expect recovery in PV demand

The PV segment is expected to continue to remain strong in the medium term, led by structural recovery and demand pull across segments on preference for personal transport, reflected in the strong order book. The continued rise in urbanisation and recovery in the rural segment would add to the PV segment's growth prospects. In the recent past, the shortage of semiconductor chips has impacted wholesale volumes. We expect the shortage of semiconductor chips to ease going forward and normalise in CY2023. Moreover, a recovery in export destinations is expected to keep growth momentum favourable.

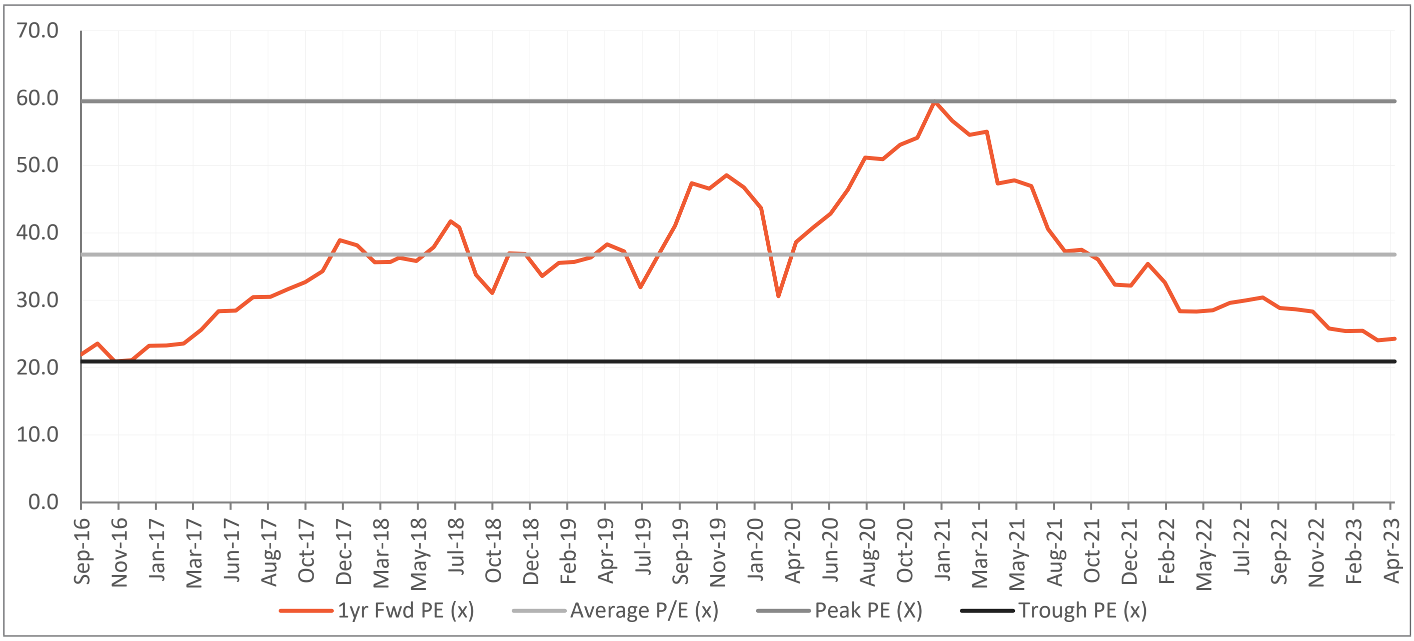
■ Company Outlook – Strong earnings growth from the core business

While MSIL has been maintaining its market leadership position in the overall PV market, it has been endeavouring to expand its presence in the UV segment via new launches. 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. With gradual improvement in semiconductor chip supply and strong order book, MSIL is expected to continue to maintain traction in volumes in the medium term in support of strong distribution network and healthy penetration in the rural segment.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 10,965

Post registering in-line performance, management is looking to outperform the PV industry's growth in FY2024, as it anticipates healthy performance in the SUV segment in FY2024. With a strong order book of 412,000 units, management is optimistic about its performance; however, management indicated about the production challenges in Q1FY2024 due to the shortage of semiconductor chips. Given a strong order book in hand, below-normal dealer inventory, healthy response to new products, and recovery in its EBITDA margin profile, we continue to maintain our positive view on the company. With expectation of a 9.4% volume CAGR and 200 bps expansion in EBITDA margin to 11.4% over FY2023-FY2025E, we expect a 21.3% earnings CAGR. The stock is trading at a P/E of 21.7x and EV/EBITDA of 12.4x 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

About company

MSIL is India's largest PV car company accounting for ~41.3% 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 63.5%, utility vehicles (UV) at 18.3%, and vans at 94.4%. MSIL has been steadily ramping up its presence in the hinterlands, with healthy contribution from the rural segment. MSIL is a subsidiary of Suzuki Motor Corporation of Japan. The Japanese car major holds a 56.48% stake in MSIL.

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 been launching new products and this carries a product failure risk.
- 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	56.48
2	Life Insurance Corporation of India	3.43
3	SBI Funds Management Ltd.	3.04
4	ICICI Prudential Asset Management Co Ltd/India	2.85
5	Vanguard Group Inc/The	1.69
6	Blackrock Inc	1.41
7	UTI Asset Management Co Ltd	1.15
8	Kotak Mahindra Asset Management Co Ltd/India	1.07
9	State of Kuwait	1.06
10	Norges Bank	1.02

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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