

Maruti Suzuki

Gradually expanding its addressable market

Maruti Suzuki's (MSIL) Q1FY24 PAT at INR 24.8bn was ahead of our estimate of INR 23.5bn even as a lower-than-expected margin was offset by higher-than-expected other income. Over the last three quarters, MSIL has been on an aggressive launch spree, having launched four new models, viz., Grand Vitara, Jimny, Fronx and the Invicto, in a bid to recover its lost share in UVs, which has now recovered to 23% in Q1 (from 17% YoY); MSIL is now again the market leader in UV segment. The recent success of GV (9-10k units per month) and the higher-than-expected order bookings for Invicto are a case in point; customers are considering Maruti's products as "worthy contenders" even in the >Rs1500k segment, where few investors were so far doubting the company's "right to win". While the impact of MSIL's decision to acquire SMG shares from SMC is likely to be minimal for the company, we are not sure of its rationale at this stage. Nevertheless, given the new growth opportunities, we continue to maintain our BUY with a revised TP of INR 10,920/share (from INR 10,214 earlier) as we roll forward to June-2025 earnings (from FY25 earlier).

- MSIL Q1 margins miss estimates:** Margin declined 120bps QoQ to 9.7% relative to our estimate of 11%. The margin miss was largely driven by: (1) the sharp rise in staff costs (+110bps QoQ) and higher-than-expected other expenses (+80bps QoQ). While staff costs had a one-off impact of 80bps related to retention bonuses to employees, higher other expenses were driven by higher ad spend and higher discounts (INR16,214 / unit from INR 13,269/ unit QoQ).
- MSIL board approves acquiring shares of SMG from SMC:** In order to bring in operational synergies, MSIL has approved the termination of its contract manufacturing agreement with SMG and would acquire the shares of SMG from SMC, subject to regulatory approvals (mode of acquisition to be decided). As per the original agreement, any such acquisition was to be done at the book value of SMG, which stands at INR127bn, as of FY23. This decision has come as a major surprise to us and while its impact is not material for MSIL, we are not sure about the rationale for the same. Simply put, if termination of this agreement provides synergy benefits for MSIL, why was this arrangement with SMG done in the first place?
- Call takeaways:** (1) Order backlog at MSIL has now reduced to 355k from 412k units. With easing supply constraints, the order backlog has reduced and has helped normalise inventory to four weeks at 125k units. (2) Retail grew 8% YoY in Q1 to 380k units. (3) MSIL outperformed the industry in Q1 (12% YoY growth vs the rest of the industry growth at 7%) and it expects this momentum to continue on the back of its refreshed product portfolio, albeit at slower growth, given a higher base in Q2. (4) The incremental 100k units of Manesar capacity would be operational by Q4FY24 end. (5) The capex of the EV plant would come under MSIL, post the restructuring highlighted above.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1 FY24	Q1 FY23	YoY (%)	Q4 FY23	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	3,08,452	2,52,863	22.0	3,08,218	0.1	11,23,958	13,33,105	15,38,767	17,41,308
EBITDA	29,830	19,121	56.0	33,503	-11.0	1,10,077	1,46,222	1,76,792	1,99,974
APAT	24,851	10,128	145.4	26,236	-5.3	80,492	1,07,949	1,27,581	1,44,901
Diluted EPS(INR)	82.3	33.5	145.4	86.9	-5.3	266.5	357.4	422.5	479.8
P/E (x)						36.8	27.5	23.2	20.5
EV / EBITDA (x)						22.7	16.9	13.5	11.6
RoCE (%)						16.9	19.5	20.5	20.6

Source: Company, HSIE Research

BUY

CMP (as on 31 Jul 2023)	INR 9,821
Target Price	INR10,920
NIFTY	19,754

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 10,214	INR 10,920
	FY24E	FY25E
EPS %	0.0%	3.4%

KEY STOCK DATA

Bloomberg code	MSIL IN
No. of Shares (mn)	302
MCap (INR bn) / (\$ mn)	2,967/36,275
6m avg traded value (INR mn)	4,021
52 Week high / low	INR 10,037/8,076

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.3	10.4	11.9
Relative (%)	5.5	(1.3)	(3.6)

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	56.48	56.48
FIs & Local MFs	18.57	18.20
FPIs	21.11	21.87
Public & Others	3.84	3.45
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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