Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Maruti Suzuki India Ltd

Decent performance, Maintain Buy

Automobiles	Sharekhan code: MARUTI

Reco/View: Buy	↔	CMP: **Rs. 9,819**	Price Target: **Rs. 11,333**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result Update

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 Jun 08, 2023

Medium Risk

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

Source: Morningstar

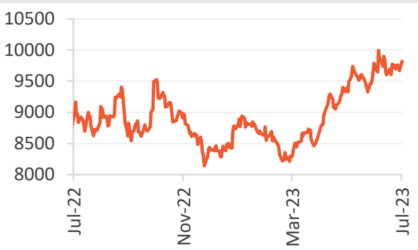
Company details

Market cap:	Rs. 296,612 cr
52-week high/low:	Rs. 10,036/8,076
NSE volume: (No of shares)	4.4 lakh
BSE code:	532500
NSE code:	MARUTI
Free float: (No of shares)	13.1 cr

Shareholding (%)

Promoters	56.5
FII	21.0
DII	18.2
Others	4.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.9	14.3	15.6	11.3
Relative to Sensex	-0.7	5.9	7.1	-6.9

Sharekhan Research, Bloomberg

Summary

- This was the consecutive second quarter when Maruti Suzuki India Limited (MSIL) registered double-digit adjusted EBITDA margin.
- With an order book of 355,000 units and successful new launches, the management has shared an optimistic outlook for near term. Production challenges are likely to ease gradually as chip supply improves.
- We reiterate a Buy rating on Maruti Suzuki India Limited with a revised PT of Rs. 11,333, factoring a success of new launches, better operating performance, and structural upward shift in the product mix.
- Stock trades at P/E multiple of 24.2x and EV/EBITDA multiple of 14.1x its 2025 estimates.

In Q1FY24, MSIL has reported an adjusted EBITDA margin in line with estimates, while revenue and adjusted EBITDA were 2.4% and 2.8%, respectively, ahead of estimates. Further adjusted PAT surpassed the estimates by 17.2% on higher-than-expected other income. Revenue increased by 0.9% q-o-q to Rs 32,327 crore (against estimate of Rs 31,567 crore) on the back of 3.3% q-o-q decline in volumes and 4.3% q-o- q increase in ASPs. With a suitable product mix and stable commodity cost trend the gross margin expanded by 50 bps q-o-q to 27.2%. During the quarter Employee cost was inflated by 80 bps due to one time cost. Excluding the one-time cost, adjusted EBITDA declined by 3.2% q-o-q to Rs 3,242 crore (against estimate of Rs 3,155 crore) and adjusted EBITDA margins contracted by 50 bps q-o-q to 10.0% (against estimate of 10.0%). Other income increased by 34.8% q-o-q to Rs 1,001 crore. With inline operating margin performance and higher than expected EBITDA the APAT has increased by 2.4% q-o-q to Rs 2,687 crore. Going forward, the company has shared an optimistic outlook for volumes in near term supported by product launches. We continue to maintain our positive view on MSIL owing to its product launch strategy and favourable volume growth cycle in the domestic PV segment.

Key positives

- Despite a 3.3% q-o-q decline in volumes and increase in discounts, ASPs increased by 4.3% q-o-q led by a better product mix as UVs contributed 25% to its total volumes in Q1FY24 against 21% in Q4FY23. Discounts have risen from Rs 12,748 in Q4FY23 to Rs 16,214 in Q1FY24.
- Other income increased by 34.8% q-o- q to Rs 1,001 crore and supported bottom-line performance.
- MSIL has witnessed the highest quarterly CNG sales of over 113,000 units in Q1FY24 and hence CNG penetration has reached 27% in its domestic portfolio.

Key negatives

- It lost production of 28,000 units due to supply chain constraints.
- Lacked operating leverage benefit due to a 3.3% q-o-q decline in volumes as other expenses as percentage of sales expanded by 70 bps q-o-q to 13.5%.

Management Commentary

- Demand outlook is positive in the near term as the new products are receiving healthy response in the market.
- Raw material prices are likely to remain stable in the near term.
- The improvement in product mix would translate into a rise in ASPs.

Our Call

Valuation - Maintain Buy with revised PT of Rs. 11,333: MSIL reported an adjusted EBITDA margin in line with our expectations owing to better product mix and gross margin expansion. Further, the management has shared an optimistic outlook for volumes in near term led by favorable response to new launches as it is enjoying an order book of 355,000 units. With a stable outlook for raw material basket, gradual ease of chip shortage and expectation of rise in ASPs on improvement in product mix in coming quarters, we believe that MSIL would report better operating performance in coming quarters. Along with the results, the company has decided to acquire SMG (Gujrat). While MSIL has not decided the acquisition value yet but we believe that MSIL would acquire SMG at net book value. The acquisition may statistically boost EBITDA margin without affecting bottomline (adjusted to change in other income) on addition of SMG's depreciated assets in its books. A successful entry into premium segment and rise in share of UVs in its overall portfolio is structural shift in MSIL's business model. With expectation of 9.5% volume CAGR and 200 bps expansion in EBITDA margins to 11.4% over FY23- 25E, we expect a 23.3% earning CAGR. We reiterate our Buy rating on the stock with a revised price target (PT) of Rs. 11,333, factoring success of new launches, improvement in operating performance and structural upward shift in its product mix.

Key Risks

A 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	FY23	FY24E	FY25E
Net sales	70,333	88,296	1,17,523	1,41,039	1,55,811
Growth (%)	-7.3	19.5	33.1%	20.0%	10.5%
Adj. EBITDA	5,345	5,701	11,008	15,232	17,700
Adj. EBIDTA (%)	7.6	6.5	9.4	10.8	11.4
Adj. PAT	4,230	3,766	8,049	10,952	12,233
Growth (%)	-7.3	19.5	113.7%	36.1%	11.7%
Adj. EPS (Rs)	140.1	124.7	266.5	362.7	405.1
P/E (x)	70.1	78.7	36.8	27.1	24.2
P/B (x)	5.8	5.5	4.9	4.3	3.8
EV/EBITDA (x)	47.2	44.4	22.7	16.4	14.1
RoE (%)	8.2	7.0	13.3	15.9	15.7
RoCE (%)	7.8	6.7	12.6	15.6	15.6

Source: Company; Sharekhan estimates

Q1FY24: Adjusted EBITDA came at 10.0% against estimate of 10.0%

- Despite higher discounts, revenue topped estimates by 2.4% on account of better product mix.
- Excluding the one-time impact of 80 bps in employee cost the adjusted EBITDA margin at 10.0% was in line with estimates.
- With strong other income (+34.8% q-o-q) the adjusted PAT increased by 2.4% to Rs 2,687 crore (against estimate of Rs 2,293 crore)
- Discount levels: Average discount per unit has increased from Rs 12,748 in Q4FY23 to Rs 16,214 in Q1FY24.
- Order book: Pending order book stands at 355,000 units compared to 412,000 units in Q4FY23.
- Royalty rate stood at 3.8%
- Export revenue: Export revenue stood at Rs 3760 crore in Q1FY24.
- Retail sales: 380,000 units.
- Dealer inventory: 125,000 units (4 week)

SMG acquisition

- MSIL terminated the contract manufacturing agreement with Suzuki Motor Gujarat Private Limited (SMG) and decided to acquire a 100% stake in SMG from Suzuki Motor Corporation.
- Acquisition cost and the valuation will be decided in subsequent board meetings.
- Mode of payment has not been decided yet.
- Acquisition is likely to be completed by the end of FY24.
- The management believes that the acquisition would bring efficiency in operation and help it in smooth production planning.
- The acquisition is expected to happen at net book value basis in line with the earlier clauses resolved by the shareholders.

Others

- The company has started export of Fronx. Currently Fronx is enjoying an order book of 22,000 units.
- MSIL is aiming for a leadership position in SUV segment as its newly launched SUVs are receiving healthy response in the market.

Outlook

- The management has shared an optimistic outlook on demand, while indicating that the demand is largely driven by the new product launches and entry-level products are still facing headwinds.
- While chip supply situation is still uncertain, the company expects the chip supply will be better in Q2FY24 as compared to Q1FY24.
- While the steel prices are showing a marginal uptick the corresponding correction in precious metals are showing down trend and hence overall RM cost trend is expected to be stable in coming quarters.

Results (Standalone) Rs cr

Particulars	Q1FY24	Q1FY23	% YoY	Q4FY23	% QoQ
Revenues	32,327	26,500	22.0	32,048	0.9
Operating Expenses	29,085	24,588	18.3	28,698	1.4
AEBIDTA	3,242	1,912	69.5	3,350	(3.2)
Depreciation	748	651	14.8	739	1.1
Interest	47	27	69.7	99	(53.1)
Other Income	1,001	89	-	743	34.8
APBT	3,449	1,322	160.9	3,255	6.0
Tax	705	309	128.2	631	11.7
Adjusted PAT	2,687	1,013	165.3	2,624	2.4
AEPS	88.9	33.5	165.3	86.9	2.4

Source: Company, Sharekhan Research

Key Ratios (Standalone)

Particulars	Q1FY24	Q1FY23	YoY (bps)	Q4FY23	QoQ (bps)
Gross margin (%)	27.2	25.4	180	26.7	50
EBIDTA margin (%)	10.0	7.2	280	10.5	-40
Net profit margin (%)	8.3	3.8	450	8.2	10
Effective tax rate (%)	22.1	23.4	-130	19.4	270

Source: Company, Sharekhan Research

Volume Analysis (Rs / vehicle)

Particulars	Q1FY24	Q1FY23	% YoY	Q4FY23	% QoQ
Volumes	4,98,030	4,67,931	6.4	5,14,907	(3.3)
Revenue/Vehicle	6,49,095	5,66,319	14.6	6,22,404	4.3
RMC/Vehicle	4,72,496	4,22,502	11.8	4,56,148	3.6
Gross profit/Vehicle	1,76,600	1,43,816	22.8	1,66,255	6.2
EBITDA/Vehicle	65,089	40,863	59.3	65,066	0.0
PAT/Vehicle	53,944	21,644	149.2	50,953	5.9

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Expect recovery in PV demand

The PV segment is expected to continue remain strong in medium terms led by structural recovery and demand pull across the segments on preference for personal transport, reflected in strong order book. The continued rise in urbanization and recovery in rural segment would add on the growth prospects in PV segment. In recent past, the shortage of semiconductor chips has impacted the wholesales volumes , we expect 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.

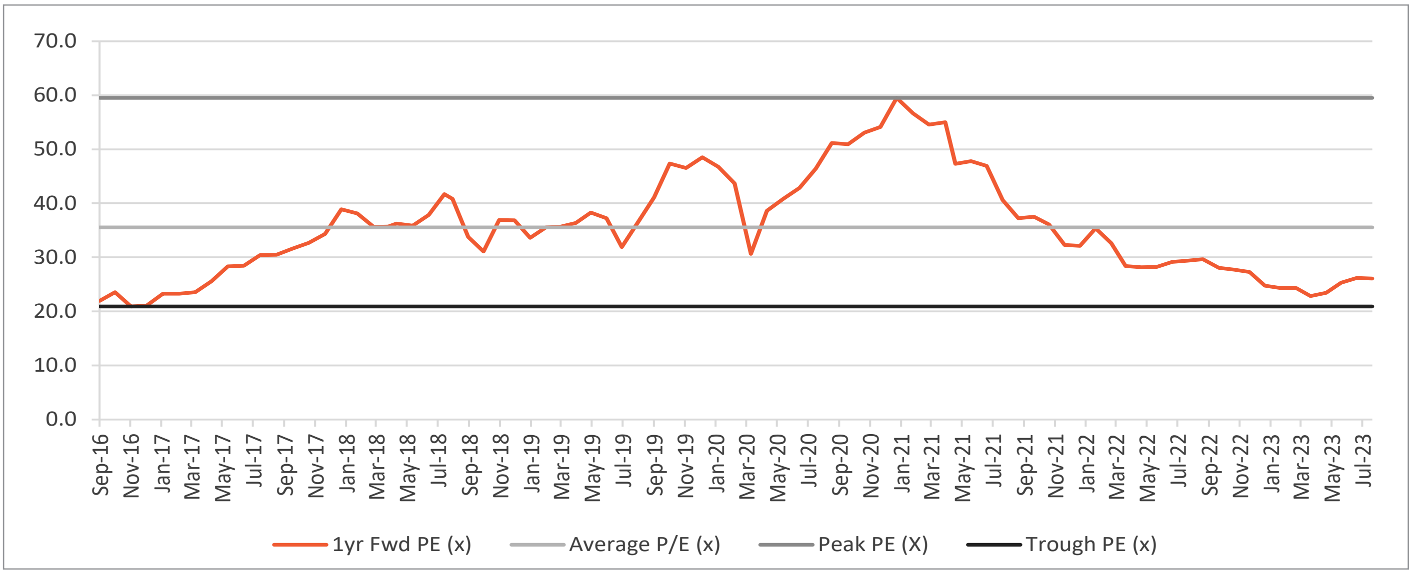
■ Company outlook - Strong earnings growth from the core business

While MSIL has been maintaining its market leadership position in overall PV market it has been endeavouring to expand its presence in 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 medium term in support of strong distribution network and healthy penetration in rural segment.

■ Valuation - Maintain Buy with revised PT of Rs. 11,333

MSIL reported an adjusted EBITDA margin in line with our expectations owing to better product mix and gross margin expansion. Further, the management has shared an optimistic outlook for volumes in near term led by favorable response to new launches as it is enjoying an order book of 355,000 units. With a stable outlook for raw material basket, gradual ease of chip shortage and expectation of rise in ASPs on improvement in product mix in coming quarters, we believe that MSIL would report better operating performance in coming quarters. Along with the results, the company has decided to acquire SMG (Gujrat). While MSIL has not decided the acquisition value yet but we believe that MSIL would acquire SMG at net book value. The acquisition may statistically boost EBITDA margin without affecting bottom line (adjusted to change in other income) on addition of SMG's depreciated assets in its books. A successful entry into premium segment and rise in share of UVs in its overall portfolio is structural shift in MSIL's business model. With expectations of 9.5% volume CAGR and 200 bps expansion in EBITDA margins to 11.4% over FY23- 25E, we expect a 23.3% earning CAGR. We reiterate our Buy rating on the stock with a revised price target (PT) of Rs. 11,333, factoring success of new launches, improvement in operating performance and structural upward shift in its product mix.

One-year forward P/E (x) band



Source: Sharekhan Research

Change in earning estimates Rs crore

Particulars	Earlier		New		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Volumes	2176335	2354774	2176385	2355494	0.0%	0.0%
Revenue	1,34,542	1,48,570	1,41,039	1,55,811	4.8%	4.9%
EBITDA	14,530	16,878	15,232	17,700	4.8%	4.9%
EBITDA margin	10.8%	11.4%	10.8%	11.4%		
PAT	10,419	11,836	10,952	12,233	5.1%	3.4%
EPS	345	392	363	405	5.1%	3.4%

Source: Company, 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 rural segment. MSIL is a subsidiary of Suzuki Motor Corporation of Japan. The Japanese car major holds 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

- Given MSIL has been launching a new products and hence 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

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.	2.82%
4	ICICI Prudential Asset Management Co Ltd/India	2.76%
5	Blackrock Inc	1.58%
6	Vanguard Group Inc/The	1.47%
7	Kotak Mahindra Asset Management Co Ltd/India	1.16%
8	UTI Asset Management Co Ltd	1.15%
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

Sharekhan

by BNP PARIBAS

DISCLAIMER

This information/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 information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/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 information/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 recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/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 might have dealt or traded directly or indirectly in securities of the company and that all 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 either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might 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. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has 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 Ltd 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.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/ investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Other registrations of 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.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022- 33054600