Maruti Suzuki: Maruti Suzuki’s Q2FY24 PAT at INR 37.2bn came in ahead of our estimates of INR 30.3bn, led by better-than-expected margins. While we were expecting margin improvement led by a richer mix, the extent of margin improvement has come in as a surprise and management did clarify that there are no one-offs in the quarter which has aided this. On the back of its aggressive launch spree over the last few quarters, MSIL has now gained 900bps+ market share in UVs to 25.8% in H1 and is once again the market leader in the UV segment. While its order backlog has reduced to 250k units, it is on expected lines, given the improved supply. The success of GV (9-10k units per month) is a case in point that customers are considering Maruti’s products as “worthy contenders” even in the >INR1,500k segment, where few investors were so far doubting the company’s “right to win”. Given a strong outperformance in Q2, we have raised our FY24-25 earnings by 10% / 7%—lower for FY25—as we expect the mix to gradually normalize as car demand will also pick up. Given this and a roll-forward to Sept 25 EPS (from Jun 25 earlier), we revised our TP to INR 12,052/share (from INR 10,920/share). Maintain BUY.
Maruti Suzuki

Stellar performance

Maruti Suzuki’s Q2FY24 PAT at INR 37.2bn came in ahead of our estimates of INR 30.3bn, led by better-than-expected margins. While we were expecting margin improvement led by a richer mix, the extent of margin improvement has come in as a surprise and management did clarify that there are no one-offs in the quarter which has aided this. On the back of its aggressive launch spree over the last few quarters, MSIL has now gained 900bps+ market share in UVs to 25.8% in H1 and is once again the market leader in the UV segment. While its order backlog has reduced to 250k units, it is on expected lines, given the improved supply. The success of GV (9-10k units per month) is a case in point that customers are considering Maruti’s products as “worthy contenders” even in the >INR1,500k segment, where few investors were so far doubting the company’s “right to win”. Given a strong outperformance in Q2, we have raised our FY24-25 earnings by 10% / 7%—lower for FY25—as we expect the mix to gradually normalize as car demand will also pick up. Given this and a roll-forward to Sept 25 EPS (from Jun 25 earlier), we revised our TP to INR 10,920/share (from INR 10,920/share). Maintain BUY.

- Strong beat to estimates: The key surprise in Q2 was the 380bps QoQ margin improvement to 13.5% (vs. our estimate of 11%). Management clarified that although most of the positives came in this quarter, there were no material one-offs in Q2 which led to the margin boost. Q2 margin improvement was led by (1) a richer mix as UV mix improved to 33% of volume to 25% QoQ; (2) lower input cost as precious metals saw a sharp correction; (3) normalised staff costs (which were elevated in Q1 due to bonus provision); (4) operating leverage benefit; and (5) lower ad spend offset by higher discounts.

- Call takeaways: (1) Management has maintained that the PV industry is likely to grow at 5-7% for FY24E and MSIL would outperform the industry. In the festive period so far, the PV industry has grown by 20% and MSIL has grown in line with the industry. (2) Management maintained that while it may take longer than earlier anticipated, it remains committed to its target of achieving 50% market share in PVs. (3) The current order backlog has now been reduced to 250k units (including 123k for CNG variants) with improved availability of vehicles. (4) Finished goods inventory stands at slightly over 50% market share in PVs. (5) The average discount per vehicle has increased by 9% QoQ to INR 17,700, primarily due to weak car demand. (6) Cost outlook: While precious metal costs continue to soften QoQ, steel price is again on an uptrend which remains a cause of worry. However, any adverse impact due to this is likely to be offset by the depreciating yen. (7) Management has maintained capex guidance at INR 80bn for FY24E. (8) It has indicated that it targets to launch 11 new models by 2030 taking the total number of models to 28, including six EV models. Similarly, it aims to nearly triple its exports to 750k units by 2030.

Quarterly/annual financial summary

<table>
<thead>
<tr>
<th>YE Mar (INR mn)</th>
<th>Q2 FY24</th>
<th>Q2 FY23</th>
<th>YoY (%)</th>
<th>Q1 FY24</th>
<th>QoQ (%)</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>5,55,351</td>
<td>2,85,435</td>
<td>30.8</td>
<td>1,08,452</td>
<td>15.2</td>
<td>11,25,008</td>
<td>13,20,691</td>
<td>15,21,235</td>
</tr>
<tr>
<td>EBITDA</td>
<td>47,842</td>
<td>27,689</td>
<td>72.8</td>
<td>29,830</td>
<td>60.4</td>
<td>1,10,077</td>
<td>1,55,624</td>
<td>1,84,433</td>
</tr>
<tr>
<td>APAT</td>
<td>37,165</td>
<td>20,615</td>
<td>80.3</td>
<td>24,851</td>
<td>49.6</td>
<td>80,492</td>
<td>1,23,914</td>
<td>1,42,373</td>
</tr>
<tr>
<td>Diluted EPS (INR)</td>
<td>123.1</td>
<td>68.3</td>
<td>80.3</td>
<td>82.3</td>
<td>49.6</td>
<td>266.5</td>
<td>394.2</td>
<td>453.0</td>
</tr>
<tr>
<td>P/E (x)</td>
<td>39.6</td>
<td>26.8</td>
<td>23.3</td>
<td>20.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EV / EBITDA (x)</td>
<td>24.7</td>
<td>17.2</td>
<td>14.2</td>
<td>12.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RoCE (%)</td>
<td>16.9</td>
<td>19.2</td>
<td>19.5</td>
<td>19.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Aniket Mhatre
aniket.mhatre@hdfcsec.com
+91-22-6171-7357
Rating Criteria
BUY:  >+15% return potential
ADD:  +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL:  > 10% Downside return potential

Disclosure:

<table>
<thead>
<tr>
<th>Analyst</th>
<th>Company Covered</th>
<th>Qualification</th>
<th>Any holding in the stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aniket Mhare</td>
<td>Maruti Suzuki</td>
<td>MBA</td>
<td>NO</td>
</tr>
</tbody>
</table>

1 Yr Price movement
Disclosure:
Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.
Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:
This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor or financial advisor. Readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice.
Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.
This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.
Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currency fluctuations, may be adversely affected due to exchange rate movements and may not be able to recover their capital in full or at all.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions herein.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on the basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL, please refer the website.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.
HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage services transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com