Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Maruti Suzuki India Ltd

Consistently delivering superior margins

Automobiles	Sharekhan code: MARUTI
Reco/View: Buy ↔	CMP: **Rs. 10,552** / Price Target: **Rs. 12,257** ↑

↑ 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 25.78

Updated Aug 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. 3,18,755 cr
52-week high/low:	Rs. 10,846 / 8,076
NSE volume: (No of shares)	4.8 lakh
BSE code:	532500
NSE code:	MARUTI
Free float: (No of shares)	13.1 cr

Shareholding (%)

Promoters	56.5
FII	21.8
DII	18.3
Others	3.4

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.3	8.1	21.1	21.2
Relative to Sensex	3.1	12.0	14.1	13.4

Sharekhan Research, Bloomberg

Summary

- We reiterate our Buy rating on Maruti Suzuki India Limited (MSIL), with a revised PT of Rs 12,257 in expectation of the success of new launches, improvement in operating performance and structural upward shift in its product mix.
- This was the third consecutive quarter when MSIL has registered a double-digit adjusted EBITDA margin.
- Management targets to outperform the PV industry in FY24 and aims for a 10% volume growth in FY24.
- Stock trades at P/E multiple of 21.5x and EV/EBITDA multiple of 12.5x its FY26estimates.

MSIL has reported a strong beat in operational performance, led by a better product mix and healthy gross margin expansion. The soft pricing trend in precious metals has supported the gross margin expansion in Q2FY24. During the quarter, UV sales contributed 33% to the total volumes compared to 25% in Q1FY24. The improvement in product mix was reflected in a 3.4% q-o-q increase in ASPs. While revenue was a mere 1.6% above estimates, the AEBITDA margin was 150 bps ahead of estimates. Revenue increased by 14.6% q-o-q to Rs 37,062 cr (vs estimate of Rs 36,473 cr) on the back of a 10.8% q-o-q increase in volumes and 3.4% q-o-q increase in ASPs. AEBITDA increased by 47.6% q-o-q to Rs 4784 cr (vs estimate of Rs 4155 cr). AEBITDA margin expanded by 290 bps q-o-q to 12.9% (vs estimate of 11.4%) on account of 220 bps q-o-q expansion in gross margin. Other income declined by 15.7% q-o-q to Rs 844 cr. With this operating performance, the APAT has increased by 38.3% q-o-q to Rs 3717 cr. (vs estimate of Rs 3163 cr). Going forward, the management is looking to grow ahead of the industry and targets 10% volume growth in FY24. We continue to maintain our positive view on MSIL owing to its new product launch strategy, recovery in margins and favourable volume growth cycle in the domestic PV segment.

Key positives

- ASPs improved by 3.4% q-o-q to Rs 671,348 on better product mix.
- Gross margin expanded by 220 bps q-o-q and translated into 290 bps q-o-q expansion in EBITDA margin to 12.9%.
- Begin export of Jimny 5 door to Latin America, Middle East and Africa.

Key negatives

- Other income declined by 15.7% q-o-q to Rs 844 cr.
- Increased sales and promotional expenses owing to slow movement in entry-level products as the average discount per unit has increased from Rs 16214 in Q1FY24 to Rs 17700 in Q2FY24.
- Outstanding order book has reached 2.5 lakh units in Q2FY24 compared to 3.55 lakh units in Q1FY24.

Management Commentary

- MSIL aims to outperform the PV industry in FY24 it targets a 10% volume growth compared to expected industry growth of 5%.
- PV industry is expected to grow by 18% during the festive season in 2023.
- The rural segment is growing ahead of the urban segment, while the share of first-time buyers has been declining.

Our Call

Valuation – Maintain Buy with revised PT of Rs. 12,257: Post reporting higher than expected operating performance in Q2FY24, the management targets to outperform the PV industry in FY24 as it targets a 10% volume growth in FY24 compared to an expectation of 5% volume growth for the PV industry. While the demand continues to be skewed towards the UV segment MSIL has successfully aligned with the market and registered a healthy market share in UV segment backed by successful launches in the UV segment. In 6MFY24, MSIL's market share in UV segment stood at 25.8% compared to 16.7% in 6MFY23. A successful entry into the premium segment and a rise in the share of UVs in its overall portfolio is a structural shift in MSIL's business model. While the demand for entry-level segment has been weak the management is hopeful of recovery in entry level segment on the expectation of rise in income level of entry level customers. The AEBITDA margin expansion trend has been continuing as this was the seventh consecutive quarter when MSIL has reported y-o-y expansion in AEBITDA margin and has been sustaining AEBIDTA margin above 10% for last three quarters. Post incorporation of Q2FY24 performance and introduction of earning estimates for FY26E we retain our BUY rating on the stock with a revised PT of Rs 12,257 in expectation of success of new launches, improvement in operating performance and structural upward shift in its product mix.

Key Risks

Significant delay in the execution of the order book could impact our volume estimates. Moreover, the failure of new launches and the increase in RM basket may impact our EBITDA margin estimates.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net sales	88,296	1,17,523	1,43,785	1,60,030	1,78,910
Growth (%)	25.5	33.1	22.3	11.3	11.8
AEBITDA	5,701	11,008	15,673	18,980	21,648
AEBIDTA (%)	6.5	9.4	10.9	11.9	12.1
APAT	3,766	8,049	11,287	13,193	14,807
Growth (%)	-11.0	113.7	40.2	16.9	12.2
AEPS (Rs)	124.7	266.5	373.7	436.9	490.3
P/E (x)	84.6	39.6	28.2	24.2	21.5
P/B (x)	5.9	5.3	4.6	4.0	3.5
EV/EBITDA (x)	48.3	24.7	17.3	14.3	12.5
RoE (%)	7.0	13.3	16.3	16.7	16.5
RoCE (%)	6.7	12.6	16.0	16.6	16.4

Source: Company; Sharekhan estimates

PV industry: trend and outlook

- Demand patterns in the PV industry are stable at this point in time. The demand is central India is relatively better compared to eastern India.
- The CNG segment has been witnessing healthy demand in the market as the CNG version constitutes around 15% of the PV industry, while the share of diesel versions in the PV industry has come down from 19% earlier to 17% now. Hybrid vehicles now constitute 2% of the domestic PV market.
- The demand is continuously skewed towards the SUV segment and entry-level segments are facing demand headwinds due to affordability issues.
- Given the inflationary pressure and affordability issues the share of first-time buyers in the PV industry has been coming down and hence impacting the demand of entry level products.
- The PV industry is expected to register 18% growth during the festive season and MSIL expects to grow in line with the industry.
- The management shared a cautiously optimistic outlook on the semiconductor supply issue.
- Rural demand is ahead of the urban market during the festive period.

MSIL's performance in Q2FY24

- With the support of a better model mix, soft, precious metal prices, operating leverage and in-house cost efficiencies, MSIL has reported 290 bps expansion in EBITDA margin to 12.9% in Q2FY24.
- The average discount per vehicle has increased from Rs 16214 in Q1FY24 to Rs 17700 in Q2FY24.
- Export revenue stood at Rs 4333 cr vs Rs 3760 cr in Q1FY24.
- The outstanding order book stands at 2.5 lakh units compared to 3.55 lakh units in Q1FY24. A larger part of order book is constituted by UVs.
- Retail volumes in Q2FY24 were 430k units lower than that of wholesales as MSIL has built up inventory ahead of the festive season.

Outlook

- For FY24 PV industry is expected to grow by 5% , while MSIL targets to outperform the industry and aims to grow by 10%.
- MSIL is looking for an optimal balance between EBITDA margin expansion and market share expansion.
- MSIL has earmarked a capex of Rs 8000 cr for FY24.
- Except China and USA, MSIL is focusing on all other markets for export volume growth.

Change in earning estimates Rs cr

Particulars	Earlier		New		% change		Introduction
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY26E
Volumes (units)	2176385	2355494	2168924	2347287	-0.3%	-0.3%	2575958
Revenue	1,44,279	1,60,590	1,43,785	1,60,030	-0.3%	-0.3%	1,78,910
AEBITDA	15,582	18,243	15,673	18,980	0.6%	4.0%	21,648
AEBITDA margin	10.8%	11.4%	10.9%	11.9%			12.1%
APAT	11,218	12,641	11,287	13,193	0.6%	4.4%	14,807
AEPS (Rs)	371	419	374	437	0.6%	4.4%	490

Source: Company; Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Revenues	37,062	29,931	23.8	32,327	14.6
Operating Expenses	32,278	27,162	18.8	29,085	11.0
AEBIDTA	4,784	2,769	72.8	3,242	47.6
Depreciation	794	723	9.9	748	6.2
Interest	35	31	15.1	47	(24.5)
Other Income	844	613	37.7	1,001	(15.7)
APBT	4,799	2,628	82.6	3,449	39.1
Tax	1,082	567	90.9	705	53.5
Adjusted PAT	3,717	2,062	80.3	2,687	38.3
AEPS	123.1	68.3	80.3	82.3	49.6

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q2FY24	Q2FY23	YoY (bps)	Q1FY24	QoQ (bps)
Gross margin (%)	29.4	26.9	250	27.2	220
AEBIDTA margin (%)	12.9	9.3	370	10.0	290
Net profit margin (%)	10.0	6.9	310	8.3	170
Effective tax rate (%)	22.6	21.6	100	20.4	210

Source: Company; Sharekhan Research

Volume Analysis Rs

Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Volumes (units)	5,52,055	5,17,395	6.7	4,98,030	10.8
Revenue/Vehicle	6,71,348	5,78,490	16.1	6,49,095	3.4
RMC/Vehicle	4,74,029	4,22,890	12.1	4,72,496	0.3
Gross profit/Vehicle	1,97,319	1,55,601	26.8	1,76,600	11.7
AEBITDA/Vehicle	86,662	53,516	61.9	65,089	33.1
APAT/Vehicle	67,321	39,844	69.0	53,944	24.8

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Optimistic

The PV segment is expected to continue to remain strong in medium term led by structural recovery and demand-pull across the segments on preference for personal transport, reflected in strong order book. The continued rise in urbanisation 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 wholesale volumes, we expect shortage of semiconductor chips to ease going forward and normalise in FY24. Moreover, a recovery in export destinations is expected to keep growth momentum favourable.

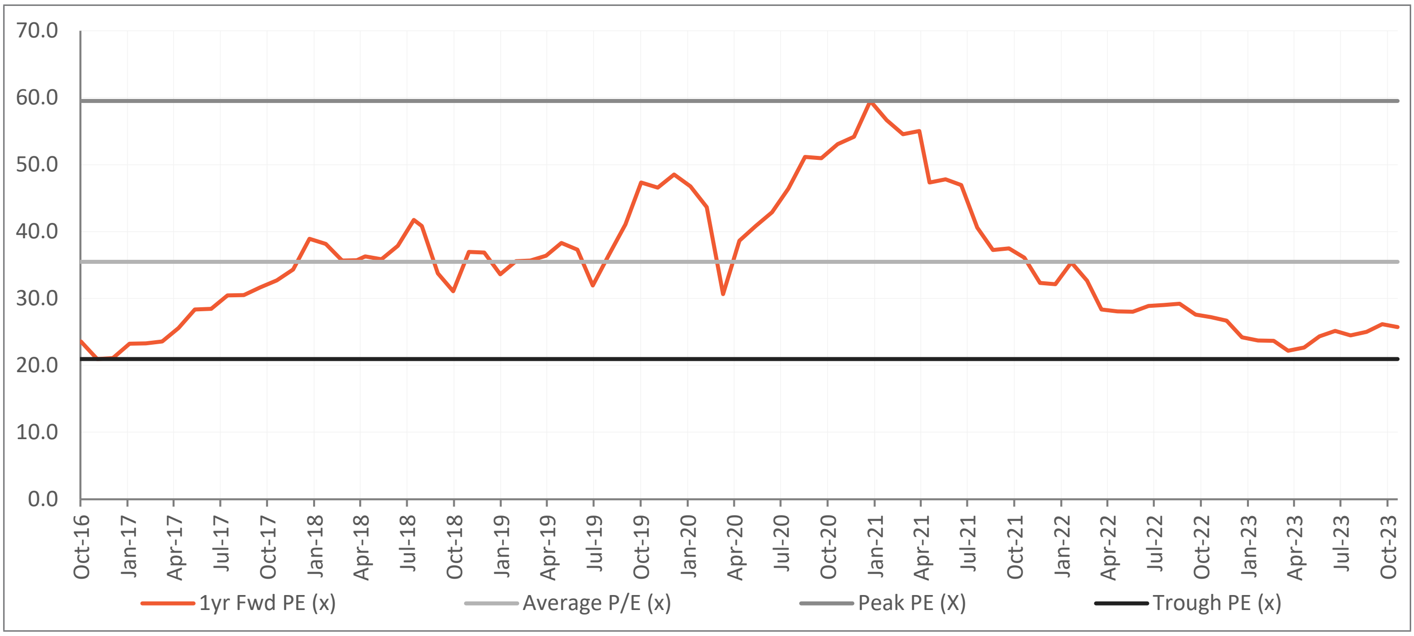
■ Company Outlook – Strong earnings growth from the core business

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 corporations are likely to keep demand strong in the medium term. With gradual improvement in semiconductor chip supply and a strong order book, MSIL is expected to continue to maintain traction in volumes in medium term in support of a strong distribution network and healthy penetration in rural segment.

■ Valuation – Maintain Buy with revised PT of Rs. 12,257

Post reporting higher than expected operating performance in Q2FY24, the management targets to outperform the PV industry in FY24 as it targets for a 10% volume growth in FY24 compared to an expectation of 5% volume growth for the PV industry. While the demand continues to be skewed towards the UV segment MSIL has successfully aligned with the market and registered healthy market share in UV segment backed by successful launches in the UV segment. In 6MFY24 MSIL's market share in UV segment stood at 25.8% compared to 16.7% in 6MFY23. A successful entry into premium segment and rise in the share of UVs in its overall portfolio is a structural shift in MSIL's business model. While the demand for entry-level segment has been weak the management is hopeful of recovery in entry-level segment on the expectation of rise in the income level of entry level customers. The AEBITDA margin expansion trend has been continuing as this was the seventh consecutive quarter when MSIL has reported yoy expansion in AEBITDA margin and has been sustaining AEBIDTA margin above 10% for last three quarters. Post incorporation of Q2FY24 performance and introduction of earnings estimates for FY26E, we retain our BUY rating on the stock with a revised PT of Rs 12,257 in expectation of 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

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 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 benefit from rising rural demand, driven by its reach and low maintenance service costs.

Key Risks

- Given MSIL has been launching new products and hence carries a product failure risk.
- A Rise in input prices may impact margins if rising commodity prices cannot be passed on to customers. In a scenario of price competition, MSIL's margin may get impacted negatively.
- Any significant delay in improving 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	ICICI Prudential Asset Management Co Ltd/India	3.12
3	Life Insurance Corporation of India	3.07
4	SBI Funds Management Ltd.	2.51
5	Blackrock Inc	1.80
6	Vanguard Group Inc/The	1.76
7	Kotak Mahindra Asset Management Co Ltd/India	1.32
8	Capital Group Cos Inc/The	1.29
9	NPS Trust A/c Uti Retirement Solutions Ltd	1.22
10	UTI Asset Management Co Ltd	1.15

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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