



**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	■	↔	■

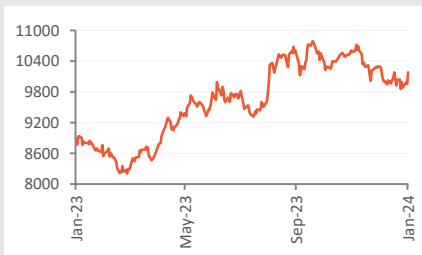
**Company details**

Market cap:	Rs. 3,20,156 cr
52-week high/low:	Rs. 10,930 / 8,127
NSE volume: (No of shares)	4.8 lakh
BSE code:	532500
NSE code:	MARUTI
Free float: (No of shares)	13.1 cr

**Shareholding (%)**

Promoters	58.2
FII	20.6
DII	17.8
Others	3.4

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-1.2	-3.6	4.2	20.7
Relative to Sensex	-0.5	-16.1	-3.4	2.3

Sharekhan Research, Bloomberg

**Maruti Suzuki India Ltd**  
On the right track

<b>Automobiles</b>	<b>Sharekhan code: MARUTI</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 10,183</b>	<b>Price Target: Rs. 12,257</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- We maintain our Buy rating on Maruti Suzuki India Ltd (MSIL) with unchanged PT of Rs 12,257 in expectation of the improvement in operating performance and structural upward shift in its product mix.
- Reported APAT at Rs 3,130 cr in Q3FY24 against an estimated Rs 2906 cr.
- Consistently maintaining EBITDA margin above 10% levels.
- Stock trades at P/E multiple of 20.8x and EV/EBITDA multiple of 12.4x its FY26E estimates.

MSIL's performance in Q3FY24 was slightly better than estimates as it reported an EBITDA margin of 11.7% against an estimate of 11.5%. Revenue declined by 10.1% q-o-q to Rs 33309 cr (vs estimate of Rs 32583 cr) due to 9.2% q-o-q decline in volumes and 1.0% q-o-q decline in ASPs. EBITDA declined by 18.3% q-o-q to Rs 3908 cr (vs estimate of Rs 3759 cr). EBITDA margin contracted by 120 bps q-o-q to 11.7% (vs estimate of 11.5%) due to 30 bps contraction in gross margin and lack of operating leverage. Higher advertising and higher discounts have impacted the margins by 30 bps and 70 bps, respectively, on a q-o-q basis. With this operating performance and 10.6% growth in other income APAT declined by 15.8% q-o-q to Rs 3130 cr (vs estimate of Rs 2906 cr). Currently we have Buy rating on the stock. With low inventory (below 45k units), we expect the wholesale volumes in Q4FY24 to be higher than those of Q3FY24. The discount levels is also expected to come down in Q4FY24 in expectation of high wholesales compared to retail in Q4FY24 due to seasonality. While the entry-level car segment has yet to revive, the management has shared an optimistic outlook for domestic as well as export segments.

**Key positives**

- Gross margin expanded by 180 bps y-o-y and translated into 200 bps y-o-y expansion in EBITDA margin to 11.7%
- This was the fourth consecutive quarter in a row when MSIL reported a double-digit EBITDA margin.
- Other income has increased by 10.6% q-o-q to Rs 933 cr.

**Key negatives**

- Other expenses have increased by 40 bps q-o-q due to a lack of operating leverage and higher promotional expenses. Higher advertisement cost impacted the EBITDA margin by 30 bps q-o-q.
- SUVs continued 31% to the total volumes in Q3FY24 compared to 33% in Q2FY24.
- Average discount per car has increased from Rs 17,700 in Q2FY24 to Rs 23,300 in Q3FY24, impacting the EBITDA margin by 70 bps q-o-q.

**Management Commentary**

- With strong retail sales, the dealer inventory stands below 45k units.
- Broadly, the management has shared an optimistic outlook for domestic as well as export volumes.
- The small car segment is continuing to face headwinds as first time buyers are not participating.

**Our Call**

**Valuation - Maintain Buy with unchanged PT of Rs. 12,257:** Post reporting slightly better than estimated operating performance, the management has shared an optimistic outlook for domestic as well as export segments. Assuming an increase in wholesales in on q-o-q basis we expect the operating performance to improve in Q4FY24. Despite weak demand in the entry-level segment, the management remains optimistic about its recovery. This expectation is based on the anticipated rise in the income levels of entry-level customers. AEBITDA margin expansion trend has been continuing as this was the eighth consecutive quarter when MSIL has reported y-o-y expansion in AEBITDA margin and has been sustaining AEBITDA margin above 10% for last four quarters. 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. Post incorporating Q3FY24 performance in our estimates, we maintain our Buy rating on the stock with unchanged 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.

**Key Risks**

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

**Valuation (Standalone)**

Particulars	Rs cr				
	FY22	FY23	FY24E	FY25E	FY26E
Net sales	88,296	1,17,523	1,39,472	1,53,469	1,68,037
Growth (%)	25.5%	33.1%	18.7%	10.0%	9.5%
EBITDA	5,701	11,008	15,900	18,263	20,669
EBITDA %	6.5	9.4	11.4	11.9	12.3
PAT	3,766	8,049	12,154	13,627	15,408
Growth (%)	-11.0%	113.7%	51.0%	12.1%	13.1%
FD EPS (Rs)	124.7	266.5	386.7	433.5	490.2
P/E (x)	81.7	38.2	26.3	23.5	20.8
P/B (x)	5.7	5.1	3.9	3.4	3.1
EV/EBITDA (x)	46.3	23.7	16.3	14.1	12.4
RoE (%)	7.0	13.3	14.7	14.7	14.8
RoCE (%)	6.7	12.6	14.6	14.6	14.7

Source: Company; Sharekhan estimates

## Key Conference call takeaways

- ◆ **Discount** : In Q3FY24 The average discount per vehicles has increased from Rs 17700 in Q2FY24 to Rs23,300 mainly due to higher retail sales in Q3FY24 as festive season fell in Q3FY24.
- ◆ **Retail sales** : With strong festive season, the company has witnessed strong retail sales in Q3FY24. Retail sales in Q3FY24 stood at 530k units compared to wholesale of 429422 units in the domestic market.
- ◆ **Inventory** : The retail sales in Q3FY24 was higher than that of the wholesales and hence the dealer inventory has come down sharply. The dealer stock at the end of Q3FY24 stands at below 45k units. The sharp reduction in dealer stock would help the company to build up dealer stock in Q4FY24.
- ◆ **Bookings** : With increase in productions as the supply chain issue has been largely sorted out the dispatches have been increased which is reflecting in reduction in waiting period and hence the bookings have reduced from 250 k units in Q2FY24 to 215k units in Q3FY24.
- ◆ **Red Sea issue** : Though the management assumes a rise in freight cost / delay in shipments due to Red Sea issue but do not consider a significant impact of Red Sea issue on its export performance.
- ◆ **EVs** : The company plans to begin production of EV model in Cy2024 and looking to export EV product to Europe and Japan.
- ◆ **Royalty rate**: Royalty rate has contracted by 30 bps q-o- q to 3.5% ( as percentage of sales)
- ◆ **Key Margin drivers for Q4FY24** : The key margin drivers for Q4FY24 are (1) wholesale volumes are expected to grow in Q4FY24 on q-o-q basis due to low inventory which would provide positive operating leverage (2) with high wholesales compared to retail the discount levels are expected to come down in Q4 on q-o-q basis and (3) the company undertook a 0.45% price hike in Q4FY24.
- ◆ **CNG penetration** : CGD infra has been expanding and hence the CNG penetration in PV segment is rising. The CNG penetration in key cities like – Gujarat, Delhi, Mumbai and now Pune has been rising.
- ◆ **Key concern** : The entry level car segment has been facing headwinds as the first time buyers ( low income group) are not postponing the purchase and waiting for rise in affordability as costs have been rising.
- ◆ **Outlook** :Broadly the management has shared optimistic outlook for domestic as well as export volumes.

## Change in earning estimates

Particulars	Earlier			New			% change			Rs cr
	FY24E	FY25E	FY25E	FY24E	FY25E	FY25E	FY24E	FY25E	FY26E	
Volumes	2168924	2347287	2575958	2104198	2245627	2409286	-3.0%	-4.3%	-6.5%	
Revenue	1,43,785	1,60,030	1,78,910	1,39,472	1,53,469	1,68,037	-3.0%	-4.1%	-6.1%	
EBITDA	15,673	18,980	21,648	15,900	18,263	20,669	1.5%	-3.8%	-4.5%	
EBITDA margin	10.9%	11.9%	12.1%	11.4%	11.9%	12.3%				
PAT	11,287	13,193	14,807	12,154	13,627	15,408	7.7%	3.3%	4.1%	
EPS (Rs)	374	437	490	387	434	490	3.5%	-0.8%	0.0%	

Source: Company; Sharekhan Research

### Results (Standalone)

Particulars	Rs cr				
	Q3FY24	Q2FY23	%YoY	Q2FY24	%QoQ
Revenues	33,309	29,044	14.7	37,062	(10.1)
Operating Expenses	29,401	26,211	12.2	32,278	(8.9)
AEBIDTA	3,908	2,833	37.9	4,784	(18.3)
Depreciation	752	710	5.9	794	(5.3)
Interest	35	30	19.6	35	0.9
Other Income	933	861	8.4	844	10.6
APBT	4,054	2,954	37.2	4,799	(15.5)
Tax	924	603	53.2	1,082	(14.6)
Adjusted PAT	3,130	2,351	33.1	3,717	(15.8)
AEPS	103.6	77.9	33.1	123.1	(15.8)

Source: Company; Sharekhan Research

### Key Ratios (Standalone)

Particulars	bps				
	Q3FY24	Q2FY23	YoY	Q2FY24	QoQ
Gross margin (%)	29.1	27.3	180	29.4	-30
EBIDTA margin (%)	11.7	9.8	200	12.9	-120
Net profit margin (%)	9.4	8.1	130	10.0	-60
Effective tax rate (%)	22.8	20.4	240	22.6	20

Source: Company; Sharekhan Research

### Volume Analysis

Particulars	Rs				
	Q2FY24	Q2FY23	%YoY	Q1FY24	%QoQ
Volumes ( units)	5,01,207	4,65,911	7.6	5,52,055	(9.2)
Revenue/Vehicle	6,64,570	6,23,387	6.6	6,71,348	(1.0)
RMC/Vehicle	4,71,214	4,53,001	4.0	4,74,029	(0.6)
Gross profit/Vehicle	1,93,355	1,70,387	13.5	1,97,319	(2.0)
EBITDA/Vehicle	77,970	60,808	28.2	86,662	(10.0)
PAT/Vehicle	62,449	50,467	23.7	67,321	(7.2)

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector View – 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 the segments on preference for personal transport, reflected in the strong order book. The continued rise in urbanization and recovery in rural segment would add on the growth prospects in PV segment. In the recent past, the shortage of semiconductor chips has impacted wholesale volumes; we expect a 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 the income levels of individuals, firms, and corporations is 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 the medium term in support of a strong distribution network and healthy penetration in the rural segment.

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

Post reporting slightly better than estimated operating performance the management has shared optimistic outlook for domestic as well as export segment. On assuming an increase in wholesales in on q-o-q basis we expect the operating performance to improve in Q4FY24. While the demand for the entry-level segment has been weak, the management is hopeful of recovery in entry-level segment on the expectation of a rise in the income level of entry-level customers. The AEBITDA margin expansion trend has been continuing as this was the eighth consecutive quarter when MSIL has reported y-o-y expansion in AEBITDA margin and has been sustaining AEBITDA margin above 10% for last four quarters. We maintain our positive view on MSIL owing to its new product launch strategy, margin recovery, and favourable volume growth cycle in the domestic PV segment. Post incorporating Q3FY24 performance in our estimates, we maintain our Buy rating on the stock with an unchanged 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.

## 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 India's mini and compact car segments 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 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 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
Hisashi Takeuchi	Managing Director and CEO
Arnab Roy	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	58.19%
2	ICICI Prudential Asset Management Co Ltd/India	3.55%
3	SBI Funds Management Ltd.	2.19%
4	Life Insurance Corporation of India	2.04%
5	Blackrock Inc	1.88%
6	Vanguard Group Inc/The	1.69%
7	Capital Group Cos Inc/The	1.47%
8	Kotak Mahindra Asset Management Co Ltd/India	1.37%
9	NPS Trust A/c Uti Retirement Solutions Ltd	1.18%
10	Europacific growth fund	1.10%

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

<b>Right Sector</b>	
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.
<b>Right Quality</b>	
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 deteriorating balance sheet
<b>Right Valuation</b>	
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

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