

REDUCE Maruti Suzuki India

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Hyundai's proposed IPO poses large upside risk

Auto & Auto Ancillaries ▶ Company Update ▶ February 16, 2024

TARGET PRICE (Rs): 10,700

As per media, Hyundai has plans to list its Indian arm Hyundai Motors India (2nd largest PV OEM with 14.9% FY24YTD market share) this year, at ~USD22-28bn valuation. Such valuation offers up to ~50%/45% upside risk to our MSIL TP/CMP (*Exhibit 1*) based on various scenarios for valuations (upper/lower band) and discounts (at par or at 20% discount to Hyundai). We believe MSIL could trade at similar valuations as Hyundai, amid Suzuki's large India dependence and Toyota's support/alliance, offset by Hyundai's strong global standing and premium positioning. Potential small-car recovery (akin to commuter motorcycles) and MSIL's E-SUV launch in ~Oct-24 (industry's first-born EV launch) are added upside risks. Post recent run-up, we assign REDUCE (vs. ADD earlier) with unchanged TP of Rs10,700/share (25x core FY26E PER).

Maruti Suzuki India: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	8,82,956	11,75,229	13,73,489	14,78,534	16,27,654
EBITDA	57,012	1,10,077	1,58,052	1,72,836	1,95,750
Adj. PAT	37,663	80,492	1,22,785	1,26,133	1,41,920
Adj. EPS (Rs)	124.7	266.5	390.7	401.3	451.5
EBITDA margin (%)	6.5	9.4	11.5	11.7	12.0
EBITDA growth (%)	6.7	93.1	43.6	9.4	13.3
Adj. EPS growth (%)	(11.0)	113.7	46.6	2.7	12.5
RoE (%)	7.1	14.1	17.3	14.8	15.1
RoIC (%)	35.6	71.6	81.1	65.5	57.4
P/E (x)	88.9	41.6	28.4	27.6	24.6
EV/EBITDA (x)	51.4	26.4	18.1	16.4	14.2
P/B (x)	6.2	5.5	4.3	3.9	3.5
FCFF yield (%)	(0.5)	1.0	2.8	2.7	3.3

Source: Company, Emkay Research

Underlying trends (inventory, orderbook, discounts) weakening for MSIL

Growth in the PV industry over the past 5-7 years has been entirely driven by new launches. Companies with a strong product cycle have gained market share with healthy volume growth, while those with fewer launches have suffered loss in market share. During the past 12-18 months, led by healthy response to its SUV launches (particularly the new *Brezza*, *Grand Vitara* and *Fronx*), MSIL has reported ~40bps market-share gains YoY in FY24YTD. While we expect share gains to continue over FY24E-26E by virtue of the freshness of MSIL's recent product actions combined with major competition launches now largely behind, we believe emerging trends need to be monitored, e.g. slowing retails, rising inventory, rapid run-down in the orderbook (215K units in Q3 vs. 288K/355K units in Q2/Q1), and rising discounts even in SUVs.

Best of profitability appears to be behind

Q2FY24 likely represented peak margin performance for MSIL (12.9%) amid confluence of positive factors like volume growth, improved SUV mix, favorable commodities and forex, and lower discounts. In Q3, MSIL's ASPs fell ~1% QoQ, with margins slipping by 118bps QoQ to 11.7%, due to operating deleverage, higher discounts, and advertisement expenses (~110bps, ~70bps, and ~30bps QoQ impact, resp., at the EBIT level). Given the muted growth outlook and challenges emerging in underlying trends (inventory, orderbook, discounts), we believe that the best of profitability appears to be behind.

Muted outlook beyond FY24E with growth concerns starting to play out

MSIL in its Q3 call indicated modest ~3% industry growth expectations for FY25E, with no imminent entry-level revival seen yet; amid limited new launch action (electric SUV 'EVX' to be the next major launch for MSIL around Oct-24), we build-in a muted ~5% volume CAGR over FY24E-26E; this also drives relatively subdued expectations of ~8% EPS CAGR for FY24E-26E. We assign a REDUCE rating to the stock (vs. ADD earlier), with unchanged estimates and TP of Rs10,700/sh at 25x core FY26E PER. Potential revival in small cars and the upcoming E-SUV launch are upside risks for MSIL.

Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	ADD
Upside/(Downside) (%)	(3.5)
CMP (15-Feb-24) (Rs)	11,090.3

Stock Data	Ticker
52-week High (Rs)	11,134
52-week Low (Rs)	8,127
Shares outstanding (mn)	314.4
Market-cap (Rs bn)	3,487
Market-cap (USD mn)	41,988
Net-debt, FY24E (Rs mn)	-6,27,268
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	6,423.6
ADTV-3M (USD mn)	77.4
Free float (%)	43.5
Nifty-50	21,911
INR/USD	83.0
Shareholding, Dec-23	
Promoters (%)	58.2
FPIs/MFs (%)	20.6/17.8

Price Performance

(%)	1M	3M	12M
Absolute	9.9	6.1	25.4
Rel. to Nifty	10.9	(4.8)	3.1

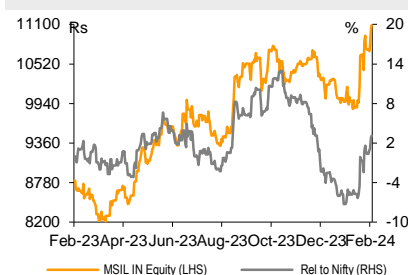
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Exhibit 1: Based on the rumored valuation band for Hyundai, there is a potential ~20% upside for MSIL

	Assuming 20% discount for MSIL		Similar valuations as Hyundai	
	On lower band	On Upper band	On lower band	On Upper band
Implied valuation for MSIL shares based on Hyundai's proposed IPO valuation, as per media	FY26E	FY26E	FY26E	FY26E
Hyundai mkt-cap (at lower and upper band of USD22-28, as per media)	22	28	22	28
Exchange Rate (Rs/USD)	83	83	83	83
Hyundai mkt-cap (as per media reports; Rs bn)	1,826	2,325	1,826	2,325
FY26E mkt-cap/EBIT, based on above valuation (x)	22.5	28.6	22.5	28.6
Assumed discount for Maruti (%)	20%	20%	0%	0%
Implied mkt-cap/EBIT multiple for Maruti (x)	18.0	22.9	22.5	28.6
Mkt-cap of Maruti based on Hyundai's valuation (Rs mn)	2,772,447	3,528,569	3,465,559	4,410,711
Implied per share value of MSIL – Core (Rs/share)	8,821	11,227	11,026	14,033
FY26E MSIL cash reserves per share (Rs/share)	2,242	2,242	2,242	2,242
Implied per share value of MSIL (Rs/share)	11,063	13,468	13,268	16,275
CMP of Maruti (Rs/share)	11,170	11,170	11,170	11,170
Downside/upside for Maruti (%)	(1.0)	20.6	18.8	45.7

Source: Media articles, Emkay Research; Note: CMP as of 16-Feb-2024

Exhibit 2: For MSIL, we expect 5%/8% volume CAGR over FY24E-26E

MSIL (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY18-21	CAGR FY18-23	CAGR FY19-23
Total Volumes (Units)	1,779,574	1,862,449	1,563,297	1,457,861	1,652,901	1,966,133	2,085,637	2,131,555	2,285,187	-6%	2%	1%
YoY Growth (%)		5	(16)	(7)	13	19	6	2	7			
Revenue	797,627	860,203	756,106	703,325	882,956	1,175,229	1,373,489	1,478,534	1,627,654	-4%	8%	8%
YoY Growth (%)		8	(12)	(7)	26	33	17	8	10			
ASP (Rs/unit)	448,212	461,867	483,661	482,436	534,186	597,736	658,547	693,641	712,263	2%	6%	7%
Gross Profit	247,877	264,718	224,540	195,153	222,583	312,794	395,070	428,313	472,684	-8%	5%	4%
Gross Profit Margin (%)	31.1	30.8	29.7	27.7	25.2	26.6	28.8	29.0	29.0			
Gross Profit per unit (Rs)	139,290	142,134	143,632	133,863	134,662	159,091	189,424	200,939	206,847	-1%	3%	3%
EBITDA	120,615	109,993	73,026	53,453	57,012	110,077	158,052	172,836	195,750	-24%	-2%	0%
EBITDA Margin (%)	15.1	12.8	9.7	7.6	6.5	9.4	11.5	11.7	12.0			
EBITDA/unit (Rs)	67,777	59,058	46,713	36,665	34,492	55,987	75,781	81,084	85,660	-19%	-4%	-1%
EBIT	93,036	79,804	37,769	23,138	29,147	81,844	127,130	136,847	154,224	-37%	-3%	1%
EBIT Margin (%)	11.7	9.3	5.0	3.3	3.3	7.0	9.3	9.3	9.5			
EBIT/unit (Rs)	52,280	42,849	24,160	15,871	17,634	41,627	60,955	64,200	67,489	-33%	-4%	-1%

Source: Company, Emkay Research

Exhibit 3: Hyundai India's volume and revenue growth over FY19-23 have been in line with MSIL's; however, profitability growth has been much sharper, given its relatively premium positioning

Hyundai Motors India (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY18-21	CAGR FY18-23	CAGR FY19-23
Total Volumes (Units)	690,183	707,348	655,170	575,877	610,760	720,565	785,488	822,780	882,082	-6%	1%	0%
YoY Growth (%)		2	(7)	(12)	6	18	9	5	7			
Revenue	393,327	432,581	429,786	406,740	470,428	597,615	671,003	723,946	799,408	1%	9%	8%
YoY Growth (%)		10	(1)	(5)	16	27	12	8	10			
ASP (Rs/unit)	569,889	611,553	655,992	706,297	770,234	829,369	854,250	879,878	906,274	7%	8%	8%
Gross Profit	95,784	106,436	101,748	93,442	112,177	147,315	167,751	180,987	199,852	-1%	9%	8%
Gross Profit Margin (%)	24.4	24.6	23.7	23.0	23.8	24.7	25.0	25.0	25.0			
Gross Profit per unit (Rs)	138,780	150,471	155,301	162,261	183,668	204,444	213,563	219,969	226,569	5%	8%	8%
EBITDA	44,293	48,366	42,849	41,744	54,095	74,477	90,585	99,181	111,917	-2%	11%	11%
EBITDA Margin (%)	11.3	11.2	10.0	10.3	11.5	12.5	13.5	13.7	14.0			
EBITDA/unit (Rs)	64,176	68,377	65,401	72,487	88,569	103,360	115,324	120,543	126,878	4%	10%	11%
EBIT	27,081	34,091	27,156	23,355	32,117	51,574	64,870	71,436	81,280	-5%	14%	11%
EBIT Margin (%)	6.9	7.9	6.3	5.7	6.8	8.6	9.7	9.9	10.2			
EBIT/unit (Rs)	39,238	48,195	41,448	40,555	52,585	71,574	82,585	86,822	92,146	1%	13%	10%

Source: Capitaline, Emkay Research

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Maruti Suzuki India: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	8,82,956	11,75,229	13,73,489	14,78,534	16,27,654
Revenue growth (%)	25.5	33.1	16.9	7.6	10.1
EBITDA	57,012	1,10,077	1,58,052	1,72,836	1,95,750
EBITDA growth (%)	6.7	93.1	43.6	9.4	13.3
Depreciation & Amortization	27,865	28,233	30,922	35,989	41,525
EBIT	29,147	81,844	1,27,130	1,36,847	1,54,224
EBIT growth (%)	26.0	180.8	55.3	7.6	12.7
Other operating income	0	0	0	0	0
Other income	17,935	21,613	33,429	28,134	31,254
Financial expense	1,259	1,866	1,922	2,018	2,119
PBT	45,823	1,01,591	1,58,637	1,62,962	1,83,359
Extraordinary items	0	0	0	0	0
Taxes	8,160	21,099	35,852	36,829	41,439
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	37,663	80,492	1,22,785	1,26,133	1,41,920
PAT growth (%)	(11.0)	113.7	52.5	2.7	12.5
Adjusted PAT	37,663	80,492	1,22,785	1,26,133	1,41,920
Diluted EPS (Rs)	124.7	266.5	390.7	401.3	451.5
Diluted EPS growth (%)	(11.0)	113.7	46.6	2.7	12.5
DPS (Rs)	60.0	90.0	136.7	140.5	158.0
Dividend payout (%)	48.1	33.8	35.0	35.0	35.0
EBITDA margin (%)	6.5	9.4	11.5	11.7	12.0
EBIT margin (%)	3.3	7.0	9.3	9.3	9.5
Effective tax rate (%)	17.8	20.8	22.6	22.6	22.6
NOPLAT (pre-IndAS)	23,957	64,846	98,398	1,05,919	1,19,370
Shares outstanding (mn)	302.0	302.0	314.3	314.3	314.3

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	45,823	1,01,591	1,58,637	1,62,962	1,83,359
Others (non-cash items)	11,956	9,215	32,844	38,007	43,644
Taxes paid	(11,769)	(22,313)	(38,001)	(39,037)	(43,923)
Change in NWC	(28,098)	3,787	10,319	5,590	7,935
Operating cash flow	17,912	92,280	1,63,800	1,67,523	1,91,016
Capital expenditure	(33,227)	(62,474)	(84,302)	(90,000)	(1,00,000)
Acquisition of business	29,074	(19,914)	(15,000)	(15,000)	(15,000)
Interest & dividend income	2,263	2,206	0	0	0
Investing cash flow	(1,890)	(80,182)	(99,302)	(1,05,000)	(1,15,000)
Equity raised/(repaid)	0	0	62	0	0
Debt raised/(repaid)	(1,069)	8,339	2,051	1,087	1,543
Payment of lease liabilities	(71)	(444)	0	0	0
Interest paid	(1,291)	(1,854)	(1,922)	(2,018)	(2,119)
Dividend paid (incl tax)	(13,594)	(18,125)	(27,180)	(42,975)	(44,146)
Others	(70)	(30,443)	1,28,117	0	0
Financing cash flow	(16,024)	(42,083)	1,01,127	(43,906)	(44,723)
Net chg in Cash	(2)	(29,985)	1,65,626	18,616	31,293
OCF	17,912	92,280	1,63,800	1,67,523	1,91,016
Adj. OCF (w/o NWC chg.)	46,010	88,493	1,53,481	1,61,933	1,83,081
FCFF	(15,315)	29,806	79,499	77,523	91,016
FCFE	(14,311)	30,146	77,577	75,505	88,897
OCF/EBITDA (%)	31.4	83.8	103.6	96.9	97.6
FCFE/PAT (%)	(38.0)	37.5	63.2	59.9	62.6
FCFF/NOPLAT (%)	(63.9)	46.0	80.8	73.2	76.2

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,510	1,510	1,572	1,572	1,572
Reserves & Surplus	5,39,350	6,02,310	8,10,237	8,92,224	9,84,472
Net worth	5,40,860	6,03,820	8,11,809	8,93,795	9,86,043
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(2,027)	(3,411)	(5,560)	(7,767)	(10,250)
Total debt	3,819	12,158	14,209	15,296	16,838
Total liabilities & equity	5,42,652	6,12,567	8,20,458	9,01,324	9,92,631
Net tangible fixed assets	1,25,092	1,65,777	2,23,126	2,79,637	3,35,612
Net intangible assets	6,402	6,368	6,368	6,368	6,368
Net ROU assets	5,679	5,904	5,904	5,904	5,904
Capital WIP	29,294	28,970	25,000	22,500	25,000
Goodwill	0	0	0	0	0
Investments [JV/Associates]	17,090	17,090	17,090	17,090	17,090
Cash & equivalents	4,20,905	4,60,851	6,41,477	6,75,093	7,21,387
Current assets (ex-cash)	1,27,454	1,43,416	1,67,610	1,80,429	1,98,626
Current Liab. & Prov.	1,89,264	2,15,809	2,66,117	2,85,698	3,17,356
NWC (ex-cash)	(61,810)	(72,393)	(98,507)	(1,05,269)	(1,18,730)
Total assets	5,42,652	6,12,567	8,20,458	9,01,324	9,92,631
Net debt	(4,17,086)	(4,48,693)	(6,27,268)	(6,59,798)	(7,04,548)
Capital employed	5,42,652	6,12,567	8,20,458	9,01,324	9,92,631
Invested capital	75,363	1,05,656	1,36,891	1,86,641	2,29,154
BVPS (Rs)	1,790.9	1,999.4	2,582.9	2,843.8	3,137.3
Net Debt/Equity (x)	(0.8)	(0.7)	(0.8)	(0.7)	(0.7)
Net Debt/EBITDA (x)	(7.3)	(4.1)	(4.0)	(3.8)	(3.6)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	6.6	13.4	16.8	14.4	14.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	88.9	41.6	28.4	27.6	24.6
P/CE(x)	51.1	30.8	22.7	21.5	19.0
P/B (x)	6.2	5.5	4.3	3.9	3.5
EV/Sales (x)	3.3	2.5	2.1	1.9	1.7
EV/EBITDA (x)	51.4	26.4	18.1	16.4	14.2
EV/EBIT(x)	100.6	35.4	22.5	20.6	18.0
EV/IC (x)	38.9	27.5	20.9	15.1	12.1
FCFF yield (%)	(0.5)	1.0	2.8	2.7	3.3
FCFE yield (%)	(0.4)	0.9	2.2	2.2	2.6
Dividend yield (%)	0.5	0.8	1.2	1.3	1.4
DuPont-RoE split					
Net profit margin (%)	4.3	6.8	8.9	8.5	8.7
Total asset turnover (x)	1.7	2.0	1.9	1.7	1.7
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	7.1	14.1	17.3	14.8	15.1
DuPont-RoIC					
NOPLAT margin (%)	2.7	5.5	7.2	7.2	7.3
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	35.6	71.6	81.1	65.5	57.4
Operating metrics					
Core NWC days	(25.6)	(22.5)	(26.2)	(26.0)	(26.6)
Total NWC days	(25.6)	(22.5)	(26.2)	(26.0)	(26.6)
Fixed asset turnover	2.8	3.3	3.1	2.8	2.6
Opex-to-revenue (%)	18.8	17.2	17.3	17.3	17.0

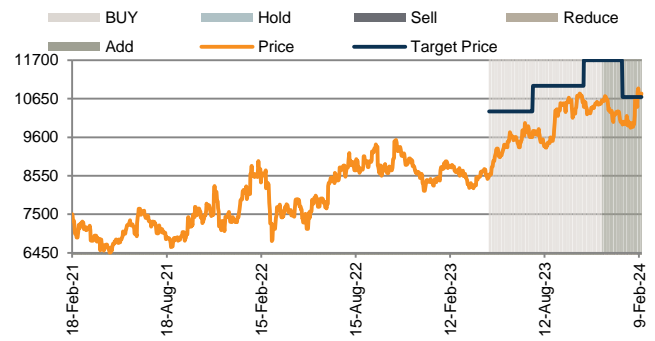
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Feb-24	10,638	10,700	Add	Chirag Jain
11-Jan-24	10,011	10,700	Add	Chirag Jain
08-Jan-24	9,947	10,700	Add	Chirag Jain
30-Nov-23	10,609	11,700	Add	Chirag Jain
28-Oct-23	10,561	11,700	Buy	Chirag Jain
26-Oct-23	10,424	11,700	Buy	Chirag Jain
31-Jul-23	9,821	11,000	Buy	Chirag Jain
20-Jul-23	9,773	11,000	Buy	Chirag Jain
27-Apr-23	8,543	10,300	Buy	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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