



## 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	✗	↔	✓

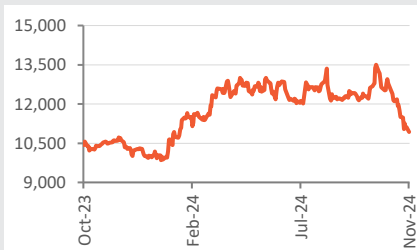
## Company details

Market cap:	Rs. 3,49,364 cr
52-week high/low:	Rs. 13,675 / 9,738
NSE volume: (No of shares)	5.6 lakh
BSE code:	532500
NSE code:	MARUTI
Free float: (No of shares)	13.1 cr

## Shareholding (%)

Promoters	58.2
FII	17.7
DII	20.9
Others	3.2

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-13.6	-14.2	-14.0	4.8
Relative to Sensex	-9.3	-15.6	-21.0	-20.1

Sharekhan Research, Bloomberg

## Maruti Suzuki India Ltd

## Inventory stress to ease post festive season

## Automobiles

## Sharekhan code: MARUTI

## Reco/View: Buy



CMP: Rs. 11,112

Price Target: Rs. 12,874



Upgrade



Maintain



Downgrade

## Summary

- EBITDA margin missed estimates on a 130 bps y-o-y contraction in gross margins.
- Management eyes 3-4% growth in retail sales in FY25 and assumes that inventory reduction would ease discounts in Q3FY25.
- We maintain a Buy with a revised PT of Rs 12874 in expectation of the stability in operating performance, structural upward shift in product mix and hope of success in new launches including EVs.
- Stock trades at P/E multiple of 19.9x and EV/EBITDA multiple of 12.4x its FY27E estimates.

Q2FY25 performance was a mixed bag as despite a rise in promotional expenses, revenue slightly beat estimates, while EBITDA margins lagged as gross margins fell y-o-y. Further, adjusted PAT beat estimates on account of a higher-than-expected other income in support of favourable forex movement. Revenue increased by 0.4% y-o-y to Rs 37,203 crore (against estimate of Rs 36,503 crore) on the back of 2.3% y-o-y rise in ASPs as volumes were down by 1.9% y-o-y. AEBITDA declined by 7.7% y-o-y to Rs 4,417 crore (against estimate of Rs 4,745 crore). EBITDA margins shrunk by 100 bps y-o-y to 11.9% (against estimate of 13.0%) on 130 bps y-o-y contraction in gross margins. Other income rose by 74.8% y-o-y to Rs 1475 crore (against estimate of Rs 980 crore) in support of favourable forex movement (up 60 bps). The company has recorded an additional deferred tax liability of Rs 837.6 crore due to withdrawal of indexation benefit on its investment in debt mutual funds. Adjusting to additional deferred tax liability APAT has increased by 5.1% y-o-y to Rs 3,907 crore (against estimate of Rs 3,696 crore).

## Key positives

- Foreign exchange gains contributed a 60-basis point positive effect on non-operating income.
- Retail sales were healthy during the festive season thought at the cost of rise in promotional expenses.
- Though gross margins fell, a 60 bps y-o-y contraction in other expenses as percentage of sales has cushioned the decline in EBITDA margins.

## Key negatives

- Average discount per vehicle has increased from Rs 21,700 in Q1FY25 to Rs 29,300 in Q2FY25.
- Gross margins contracted by 130 bps y-o-y, as topline was impacted by due to higher discounts.
- Company recorded an additional deferred tax liability of Rs 837.6 crore due to withdrawal of indexation benefit on its investment in debt mutual funds.

## Management Commentary

- Retail sales from beginning of Shraddh period till end of Deepawali is assumed to grow by 14% y-o-y on like-to-like basis.
- Dealer inventory is expected to be upto one month by the end of October 2025.
- Discounts would moderate in the coming quarter as inventory pressures dilute post festive season.

## Our Call

**Valuation – Maintain Buy with a revised PT of Rs. 12,874:** With a 130 bps y-o-y contraction in gross margin, MSIL has missed the EBITDA margin estimates in Q2FY25, while APAT came above estimates on account of higher than expected other income. Further, the management has indicated healthy demand for CNG vehicles. The average discount is expected to come down in coming quarters as dealer inventory is expected to normalized ( upto 30 days) post festive season. Even though the retail sales have picked up during festive seasons the demand for entry-level products are still lagging the demand trends in UV segment. The management is expecting a 3-4% growth in retail sales in FY25. MSIL's EV product is expected to be showcased from January 2025 onwards. After factoring Q2FY25 performance in our estimates, We maintain our Buy rating on the stock with a revised PT of Rs 12874 on rolling forward the target multiple on FY27 earnings, expecting stable operating performance, a structural upward shift in its product mix and hope of success in new launches including EV products.

## 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	FY23	FY24	FY25E	FY26E	FY27E
Net sales	1,17,523	1,40,933	1,47,467	1,61,307	1,76,446
Growth (%)	33.1%	19.9%	4.6%	9.4%	9.4%
AEBITDA	11,008	16,401	17,696	20,647	22,938
A EBITDA %	9.4	11.6	12.0	12.8	13.0
PAT	8,049	13,209	14,248	16,111	17,598
Growth (%)	113.7%	64.1%	7.9%	13.1%	9.2%
A EPS (Rs)	266.5	420.1	453.2	512.4	559.7
P/E (x)	41.7	26.4	24.5	21.7	19.9
P/B (x)	5.8	4.2	3.7	3.3	2.9
EV/EBITDA (x)	27.5	17.1	16.1	13.8	12.4
RoE (%)	13.3	15.7	15.1	15.2	14.8
RoCE (%)	12.6	15.4	15.1	15.1	19.6

Source: Company; Sharekhan estimates

- ♦ **Festive retail sales:** Management expects MSIL to achieve a 14% year-over-year growth in retail sales during the period from the beginning of Shraddha to the end of the festive season. i.e. MSIL is expecting a sales of 297,000 units this year in given period compared to 260,000 units in the corresponding period of the previous year. The retail sales in Q2FY25 was at ~420,000 units.
- ♦ **Rural-urban demand trends:** Rural market is outpacing urban areas, with SUVs continuing to lead over cars. There is also a growing preference for UVs in rural regions. The decline in small car sales has been mitigated by introduction of limited-edition variants across several models.
- ♦ **Demand outlook:** The management assumes a 3.9% year-over-year growth from April to October 2024 in retail sales, contrasting with a flat growth in wholesales in H1FY25. MSIL is optimistic on achieving a 3-4% growth in retail sales in FY25.
- ♦ **Inventory management:** By the end of this festive season, the company expects to reduce its network inventory to approximately one month.
- ♦ **CNG vehicles:** One in three cars sold by MSIL is CNG-powered, covering 14 different models. The company expects this proportion to CNG Vehicle Sales increase as the number of CNG outlets grows from the current 7,000 to 17,000 by the end of the decade.
- ♦ **Raw material costs:** management expects flat RM costs in the coming quarter.
- ♦ **Hybrid vehicle incentives:** States like Haryana, Chandigarh, Rajasthan, and Uttar Pradesh have introduced road tax exemptions for hybrid vehicles to promote their adoption. MSIL plans to expand its hybrid product range in response to the environmental benefits of these vehicles.
- ♦ **Electric SUV launch:** Management announced that promotional activities for their electric vehicle (EV) launch will begin in the coming weeks, with the products showcased at major auto shows worldwide, starting with the Bharat Mobility Show in January 2025. This will be a product aimed at both domestic and developed markets, including Europe and Japan.
- ♦ **Others**
  - ♦ The board has given preliminary approval for the amalgamation of SMG with the company, effective April 2025.
  - ♦ Royalty payments stood at 3.4% in Q2 FY25, down from 3.5% in Q1 FY25.
  - ♦ The company recently opened its 500th Nexa sales outlet, expanding its network to 3,925 locations across 2,600 towns and cities in India.

### Results (Standalone)

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Revenues	37,203	37,062	0.4	35,531	4.7
Operating Expenses	32,786	32,278	1.6	31,029	5.7
AEBIDTA	4,417	4,784	(7.7)	4,502	(1.9)
Depreciation	751	794	(5.4)	731	2.7
Interest	40	35	14.5	57	(29.8)
Other Income	1,475	844	74.8	975	51.3
APBT	5,101	4,799	6.3	4,689	8.8
Tax	2,031	1,082	87.7	1,039	95.5
Adjusted PAT	3,907	3,717	5.1	3,650	7.0
AEPS	129.4	118.2	9.4	116.1	11.4

Source: Company; Sharekhan Research

### Key Ratios (Standalone)

Particulars	Q2FY25	Q2FY24	Y-o-Y (bps)	Q1FY25	Q-o-Q (bps)
Gross margin (%)	28.1	29.4	-130	29.8	-170
EBIDTA margin (%)	11.9	12.9	-100	12.7	-80
Net profit margin (%)	10.5	10.0	50	10.3	20
Effective tax rate (%)	39.8	22.6	1,730	22.2	1,770

Source: Company; Sharekhan Research

### Volume Analysis (Rs)

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Volumes ( units)	5,41,550	5,52,055	(1.9)	5,21,868	3.8
Revenue/Vehicle	6,86,969	6,71,348	2.3	6,80,850	0.9
RMC/Vehicle	4,93,877	4,74,029	4.2	4,77,763	3.4
Gross profit/Vehicle	1,93,092	1,97,319	(2.1)	2,03,088	(4.9)
EBITDA/Vehicle	81,555	86,662	(5.9)	86,273	(5.5)
PAT/Vehicle	72,141	67,321	7.2	69,939	3.1

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – 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 to growth prospects in the PV segment. Further the shift in PVs from hatchback to SUVs augurs well for the OEMs on rise in value per car. 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 a revised PT of Rs. 12,874

With a 130 bps y-o-y contraction in gross margin, MSIL has missed the EBITDA margin estimates in Q2FY25, while APAT came above estimates on account of higher than expected other income. Further, the management has indicated healthy demand for CNG vehicles. The average discount is expected to come down in coming quarters as dealer inventory is expected to normalized ( upto 30 days) post festive season. Even though the retail sales have picked up during festive seasons the demand for entry-level products are still lagging the demand trends in UV segment. The management is expecting a 3-4% growth in retail sales in FY25. MSIL's EV product is expected to be showcased from January 2025 onwards. After factoring Q2FY25 performance in our estimates, We maintain our Buy rating on the stock with a revised PT of Rs 12874 on rolling forward the target multiple on FY27 earnings, expecting stable operating performance, a structural upward shift in its product mix and hope of success in new launches including EV products.

#### Change in earning estimates

Particulars	Earlier		New		% change		Introduction
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY27E
Revenue	1,53,808	1,73,832	1,47,467	1,61,307	-4.1%	-7.2%	1,76,446
EBITDA	19,072	22,598	17,696	20,647	-7.2%	-8.6%	22,938
EBITDA margin	12.4%	13.0%	12.0%	12.8%			13.0%
PAT	14,822	17,454	14,248	16,111	-3.9%	-7.7%	17,598
EPS (Rs)	471	555	453	512	-3.9%	-7.7%	559.7

Source: Company; Sharekhan Research

## About company

MSIL is India's largest PV car company accounting for ~41.7% 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 63.3%, utility vehicles (UV) at 25.5%, and vans at 91.9% in FY24. 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 58.19% 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
Hisashi Takeuchi	Managing Director and CEO
Arnab Roy	Chief Financial Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Suzuki Motor Corp	58.19
2	ICICI Prudential Asset Management	4.39
3	LIC	3.51
4	SBI Funds Management Ltd	2.3
5	Capital Group Cos Inc	1.81
6	Vanguard Group Inc	1.77
7	HDFC Asset Management Co Ltd	1.65
8	BlackRock Inc	1.6
9	EUROPACIFIC GROWTH FUND	1.13
10	Kotak Mahindra Asset Management Co	1.02

Source: Bloomberg

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## 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 deteriorating 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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