

HOLD

TP: Rs 11,562 | ▲ 9%

MARUTI SUZUKI

| Automobiles

| 28 October 2023

Robust quarter but positives priced in

- Q2 volume growth of ~7% YoY continued to beat the industry (~5%); we expect sustained outperformance
- Realisation gains and softening costs propelled EBITDA margin up 365bps YoY to 12.9%
- We raise FY24/FY25 EPS estimates 7%/9% for a revised TP of Rs 11,562 (vs. Rs 10,533); maintain HOLD

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Volume growth beats industry: MSIL's Q2FY24 revenue grew 24% YoY (+15% QoQ) to Rs 370.6bn backed by 7% volume gains (+11% QoQ) and 16% realisation growth (+3% QoQ). Volume growth was ahead of the industry's 5% rate for Q2, with management indicating a 20% YoY spike in sales during the festive season, in line with the industry. A prudent product mix offset added discounts (Rs 17.7k vs. Rs 16.2k in Q1FY24), aiding the stronger sequential realisations.

Operating margin rises sharply: Raw material cost at 70.6% of sales dropped 250bps YoY (-220bps QoQ), leading to a similar jump in gross margin to 29.4%. The commodity cost basket, where steel forms ~50%, softened and so did precious metal prices. Inventory adjustment of ~Rs 8bn was higher than normal. Higher raw material cost savings, a high-end product mix and better pricing helped EBITDA grow 73% YoY (+60% QoQ) to Rs 47.8bn, with margin expansion of 365bps YoY/QoQ to 12.9%. PAT rose 80% YoY (+50% QoQ) to Rs 37.2bn.

Capacity expansion on track: MSIL's manufacturing unit in IMT Kharkhoda (Haryana) with a capacity of 0.25mn vehicles a year is to be commissioned in FY25. As the existing capacity of 1.3mn units is optimally utilised, the company is also planning the expansion of 1mn vehicles a year, though the location is yet to be finalised.

Acquisition of Suzuki Motor Gujarat (SMG): MSIL will acquire 100% stake in SMG from Suzuki Motor Corporation (SMC) by way of a preferential allotment of 120mn equity shares to SMC. Final approval from all stakeholders is awaited.

Maintain HOLD with a positive bias: We raise our EPS estimates by 7%/9% for FY24/FY25 and expect MSIL to report a strong revenue/EBITDA/PAT CAGR of 25%/49%/54% over FY22-FY25. Despite an upbeat growth outlook, we maintain our HOLD rating as the positives appear largely factored into current valuations of 23x FY25E EPS. We continue to value MSIL at 25x FY25E EPS, close to its 10Y average, and have a revised TP of Rs 11,562 (Rs 10,533 earlier).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MSIL IN/Rs 10,561
Market cap	US\$ 38.8bn
Free float	44%
3M ADV	US\$ 63.9mn
52wk high/low	Rs 10,845/Rs 8,076
Promoter/FPI/DII	56%/23%/16%

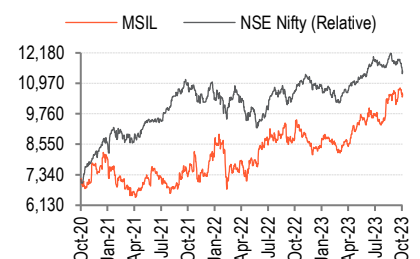
Source: NSE | Price as of 27 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	11,75,229	14,67,038	17,25,237
EBITDA (Rs mn)	1,10,077	1,59,552	1,90,342
Adj. net profit (Rs mn)	80,492	1,16,030	1,37,290
Adj. EPS (Rs)	266.5	384.1	454.5
Consensus EPS (Rs)	266.5	370.0	465.0
Adj. ROAE (%)	14.1	16.7	17.0
Adj. P/E (x)	39.6	27.5	23.2
EV/EBITDA (x)	28.6	20.0	16.8
Adj. EPS growth (%)	113.7	44.2	18.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q2FY24	Q1FY24	Our view
Volumes	<p>Industry SUV volume share rose to ~50% in Q2FY24 from 43% in FY23. UVs collectively form ~60% of the industry. CNG vehicles accounted for ~15% share in Q2 and hybrid vehicles ~2% (1% YoY)</p> <p>MSIL's sales volume grew 6.7% YoY and it maintained market leadership in hatchbacks, sedans, vans and MUVs, besides attaining leadership in SUVs (23.3% market share). PV volumes grew ~8%, beating the industry, with ~120bps market share gains.</p>	<p>PV wholesale volumes rose 12.2%, ahead of competition, and overall sales volume grew 6.4% YoY (-3.3% QoQ). Domestic sales increased 9.1% to 0.43mn units while exports contracted 9% YoY to 63.2k units. MSIL's quarterly CNG vehicle sales stood at 113k units, with ~27% CNG penetration.</p>	<p>Outperformance on volumes is likely to continue as supply chain constraints appear to be behind us. A favourable mix will be the key, rather than absolute growth.</p>
Margins	<p>EBITDA margin has improved due to a softening of commodity prices (including precious metals) in Q2FY24. A healthy mix inclined towards high-end products further aided margins.</p>	<p>Palladium/rhodium costs declined 18%/40% QoQ but a slight rise in steel prices neutralised the benefits, keeping material costs flat sequentially.</p>	<p>An increasing focus on high-end products combined with softening raw material cost should take gross margins northward.</p>
Discounts	<p>Discounts were ~Rs 17,700 per vehicle.</p>	<p>Discounts during Q1 were Rs 16,214 per vehicle as against Rs 13,269 in Q4FY23.</p>	<p>Despite higher discounts, realisations have improved 3% QoQ in Q2FY24.</p>
Supply	<p>MSIL was able to avoid volume loss on account of semiconductor shortages after nearly eight quarters and management remains cautiously optimistic on semiconductor supplies for H2FY24.</p>	<p>As a result of electronic component shortages, particularly in models witnessing high demand, production was cut by ~28,000 vehicles in Q1FY24.</p>	<p>With limited supply-side constraints in the near future, volume growth could present an upside risk to our estimates.</p>
Order book	<p>The pending order book as on Q2FY24 was ~0.3mn units, majorly comprising newly launched SUVs. <i>Ertiga</i> accounted for ~73,700 units and CNG vehicles ~0.1mn units.</p>	<p>Pending orders as on Q1FY24 stood at ~0.4mn units with a notable portion for the SUV segment. The order book for <i>Ertiga</i> totals ~93,000 units, <i>Brezza</i> ~48,000, <i>Grand Vitara</i> ~27,000, <i>Jimny</i> ~23,000, <i>Fronx</i> ~23,000, and <i>Invicto</i> ~8,000.</p>	<p>The order book remains strong, aiding medium-term visibility.</p>
Commodities	<p>Commodity price have softened, especially steel that forms 50% of MSIL's raw material cost. Management expects precious metal prices to ease but remains cautious on steel prices which have gone up recently.</p>	<p>Commodity prices of metals have stabilised in Q1FY24, although steel prices have increased which management expects will correct moving forward. Apart from steel, precious metals such as palladium and rhodium have gone down by 18-20%.</p>	<p>Moderating steel prices have provided a major respite in Q2 and will be the key for margin improvement.</p>
Capacity	<p>Management intends to increase current capacity to more than 4mn units by FY30. Acquisition of the SMG plant in Q2FY24 has increased capacity by ~0.8mn units, intended for BEV production.</p>	<p>Management is planning to add 1mn units of capacity apart from the 1mn unit Kharkhoda plant. However, the location and capex for the same are yet to be finalised.</p>	<p>Capacity expansion is key for growth, and the company's focus on the EV segment is a step in the right direction.</p>

Parameter	Q2FY24	Q1FY24	Our view
Capex	Capex for FY24 is guided at ~Rs 80bn (~Rs 50bn in H2FY24), which includes Rs 31bn earmarked for the SMG plant. Management has not finalised any capex budget for FY25.	Capex for FY24 is guided at ~Rs 80bn, a majority of which will be incurred towards adding 1mn units of capacity at the Kharkhoda plant.	Capex is largely internally funded with no pressure on the balance sheet. Prudent capital allocation will be the key.
Exports	Export volumes grew 9.7% YoY to ~69,000 units with revenue at Rs 43.4bn. MSIL continues to be the largest exporter of PVs and has commenced <i>Jimny</i> exports to Latin America, the Middle East and Africa.	MSIL exported 63,200 units (-9% YoY) and clocked export revenue of Rs 37.6bn. It has commenced sales of the <i>Fronx</i> to destinations in Latin America, Middle East and Africa.	Steady export demand and a focus on high-end products will aid revenue gains, though exports still form a relatively small proportion of the topline.
Electric vehicles	The company plans to transition to EVs by launching six new models by FY30.	MSIL intends to launch an EV in FY25 through the manufacturing facility at SMG plant.	The company has maintained its target of entering the EV segment by FY25 and has a long-term plan in place.
Other key points	The share of hatchbacks has declined to 28% of MSIL's overall volumes as on Q2FY24 due to an increase in cost amid stricter regulation and slow change in income levels of buyers in the segment.	Hatchbacks formed ~32% of volumes in Q1FY24 (33-34% in FY23) and management expects this proportion to gradually reduce.	The share of hatchbacks continues to dwindle. Any revival will provide a cushion to MSIL's growth.

Source: Company, BOBCAPS Research | SMG – Suzuki Motor Gujarat, BEV – Battery Electric Vehicles

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY23	QoQ (%)	H1FY24	H1FY23	YoY (%)
Volume (units)	552,055	517,395	6.7	498,030	10.8	1,050,085	985,326	6.6
Avg. Realisation per Vehicle (Rs)	671,348	578,490	16.1	649,095	3.4	660,794	572,710	15.4
Net Revenues	370,621	299,308	23.8	323,269	14.6	693,890	564,306	23.0
Total Income (A)	370,621	299,308	23.8	323,269	14.6	693,890	564,306	23.0
Operating Expenses:								
Raw materials consumed	261,690	218,801	19.6	235,317	11.2	497,007	416,503	19.3
Employee Expenses	13,127	11,327	15.9	14,609	(10.1)	27,736	22,911	21.1
Other Expenses	47,962	41,491	15.6	43,513	10.2	91,475	78,082	17.2
Total Expenditure (B)	322,779	271,619	18.8	293,439	10.0	616,218	517,496	19.1
EBITDA (A-B)	47,842	27,689	72.8	29,830	60.4	77,672	46,810	65.9
Other Income	8,436	6,125	37.7	10,012	(15.7)	18,448	7,010	163.2
Depreciation	7,941	7,226	9.9	7,475	6.2	15,416	13,740	12.2
EBIT	48,337	26,588	81.8	32,367	49.3	80,704	40,080	101.4
Finance Costs	351	305	15.1	465	(24.5)	816	579	40.9
PBT after excep items	47,986	26,283	82.6	31,902	50.4	79,888	39,501	102.2
Tax expense	10,821	5,668	90.9	7,051	53.5	17,872	8,758	104.1
Reported PAT	37,165	20,615	80.3	24,851	49.6	62,016	30,743	101.7
Adjusted PAT	37,165	20,615	80.3	24,851	49.6	62,016	30,743	101.7
Adj EPS (Rs)	123.1	68.3	80.3	82.3	49.6	205.4	101.8	101.7
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	29.4	26.9	249	27.2	218	28.4	26.2	218
EBITDA Margin	12.9	9.3	366	9.2	368	11.2	8.3	290
EBIT Margin	13.0	8.9	416	10.0	303	11.6	7.1	453
PBT Margin	12.9	8.8	417	9.9	308	11.5	7.0	451
Tax Rate	22.6	21.6	99	22.1	45	22.4	22.2	20
Adj PAT Margin	10.0	6.9	314	7.7	234	8.9	5.4	349

Source: Company, BOBCAPS Research

Valuation methodology

Following the robust Q2FY24 results, we have increased our FY24/FY25 EBITDA estimates by 7%/8% and EPS projections by 7%/9% to factor in strong volumes, a better product mix, healthy pricing and improvement in the supply chain. We now expect MSIL to report a revenue/EBITDA/PAT CAGR of 25%/49%/54% over FY22-FY25 but will closely monitor downside risks to margins from any spike in raw material cost.

The battle for supremacy in the SUV/MUV arena continues amid the demand shift away from the lower-end mini and compact segments. Despite stiff competition, MSIL maintains market leadership in hatchbacks, sedans, vans and MUVs, besides attaining leadership in SUVs during Q2FY24 with 23.3% market share. The company is also moving in the right direction with exports and any revival in its bread-and-butter compact segment will only lend an added cushion to earnings.

Despite the upbeat outlook, we maintain our HOLD rating as positives appear largely factored into current valuations of 23x FY25E EPS. We continue to value MSIL at 25x FY25E EPS, close to its 10-year average, with a revised TP of Rs 11,562 (Rs 10,533 earlier).

Fig 3 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	14,67,038	17,25,237	14,46,942	17,01,604	1.4	1.4
EBITDA	1,59,552	1,90,342	1,48,670	1,76,213	7.3	8.0
Adj PAT	1,16,030	1,37,290	1,08,104	1,26,008	7.3	9.0
Adj EPS (Rs)	384.1	454.5	357.9	417.1	7.3	9.0

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
Volume (nos)	16,52,653	19,66,164	22,41,427	25,10,398
ASP (Rs)	5,34,266	5,97,727	6,54,511	6,87,236
Revenues (Rs mn)	8,82,956	11,75,229	14,67,038	17,25,237
EBITDA (Rs mn)	57,012	1,10,077	1,59,552	1,90,342
Operating margin (%)	6.5	9.4	10.9	11.0
Adjusted Net Profit (Rs mn)	37,662	80,492	1,16,030	1,37,290
Adjusted EPS (Rs)	125	266	384	454

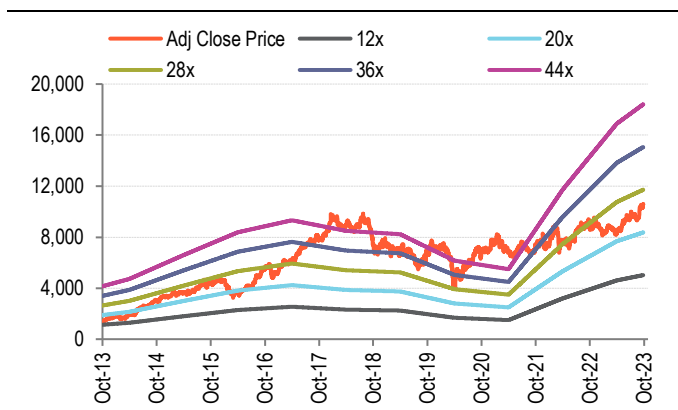
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Maruti Suzuki	MSIL IN	HOLD	11,562	384	454	17.9	18.3
Mahindra & Mahindra	MM IN	BUY	1,824	78.0	90.7	19.4	18.7
Tata Motors	TTMT IN	NOT RATED	-	29.7	41.1	21.8	24.4

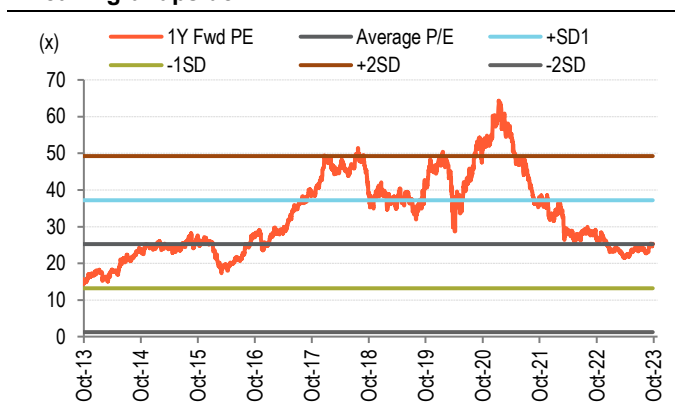
Source: BOBCAPS Research, Bloomberg

Fig 6 – P/E band



Source: Bloomberg, BOBCAPS Research

Fig 7 – Current valuation leaves limited space for meaningful upside



Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- commodity inflation sustaining for longer than expected,
- delays in model launches,
- A faster-than-expected rise in the SUV segment could be a positive surprise as well as a speedier revival in export markets

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	6.0	168	210	BUY
Bajaj Auto	BJAUT IN	18.9	5,374	5,139	HOLD
Eicher Motors	EIM IN	11.3	3,395	3,601	HOLD
Escorts	ESCORTS IN	5.1	3,146	2,343	SELL
Hero MotoCorp	HMCL IN	7.6	3,112	3,009	HOLD
Mahindra & Mahindra	MM IN	23.0	1,511	1,824	BUY
Maruti Suzuki	MSIL IN	38.8	10,561	11,562	HOLD
TVS Motor	TVSL IN	9.2	1,592	1,440	HOLD
VST Tillers Tractors	VSTT IN	0.4	3,569	3,464	HOLD

Source: BOBCAPS Research, NSE | Price as of 27 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	7,03,325	8,82,956	11,75,229	14,67,038	17,25,237
EBITDA	53,453	57,012	1,10,077	1,59,552	1,90,342
Depreciation	30,315	27,866	28,233	32,358	36,358
EBIT	52,602	47,081	1,03,457	1,50,181	1,77,524
Net interest inc./(exp.)	(1,008)	(1,259)	(1,866)	(1,425)	(1,511)
Other inc./(exp.)	29,464	17,935	21,613	22,987	23,539
Exceptional items	0	0	0	0	0
EBT	51,594	45,822	1,01,591	1,48,756	1,76,013
Income taxes	9,297	8,160	21,099	32,726	38,723
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	42,297	37,662	80,492	1,16,030	1,37,290
Adjustments	0	0	0	0	0
Adjusted net profit	42,297	37,662	80,492	1,16,030	1,37,290

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	1,01,681	1,31,402	1,51,982	1,88,563	2,22,490
Other current liabilities	47,208	26,235	27,163	33,179	46,127
Provisions	7,875	9,446	10,500	3,007	3,007
Debt funds	26,629	26,000	38,322	40,837	43,539
Other liabilities	0	0	0	0	0
Equity capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	5,23,496	5,39,352	6,02,311	6,94,175	8,07,299
Shareholders' fund	5,25,006	5,40,862	6,03,821	6,95,685	8,08,809
Total liab. and equities	7,08,399	7,33,945	8,31,788	9,61,271	11,23,971
Cash and cash eq.	30,364	30,362	377	13,660	2,722
Accounts receivables	12,766	20,301	32,958	35,209	43,131
Inventories	30,500	35,331	42,838	58,682	69,009
Other current assets	35,975	60,518	55,324	65,869	73,615
Investments	4,17,867	4,07,633	4,77,564	5,55,564	6,51,564
Net fixed assets	1,52,545	1,40,076	1,78,938	1,96,580	2,10,222
CWIP	11,923	26,391	28,081	20,000	58,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(588)	2,027	3,411	3,411	3,411
Other assets	17,047	11,304	12,296	12,296	12,296
Total assets	7,08,399	7,33,943	8,31,787	9,61,271	11,23,971

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	73,672	25,665	91,473	1,30,440	1,69,477
Capital expenditures	(23,597)	(29,865)	(68,785)	(41,919)	(88,000)
Change in investments	(53,191)	10,234	(69,931)	(78,000)	(96,000)
Other investing cash flows	29,464	17,935	21,613	22,987	23,539
Cash flow from investing	(47,324)	(1,696)	(1,17,103)	(96,932)	(1,60,461)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	3,769	(629)	12,322	2,515	2,702
Interest expenses	(1,008)	(1,259)	(1,866)	(1,425)	(1,511)
Dividends paid	(18,125)	(13,594)	(18,125)	(24,166)	(24,166)
Other financing cash flows	(127)	(2,615)	(1,384)	0	0
Cash flow from financing	(15,491)	(18,097)	(9,053)	(23,076)	(22,975)
Chg in cash & cash eq.	10,857	5,872	(34,683)	10,432	(13,959)
Closing cash & cash eq.	30,364	30,362	377	13,660	2,722

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	140.0	124.7	266.5	384.1	454.5
Adjusted EPS	140.0	124.7	266.5	384.1	454.5
Dividend per share	60.0	45.0	60.0	80.0	80.0
Book value per share	1,738.0	1,790.5	1,998.9	2,303.0	2,677.5

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	4.5	3.6	2.7	2.2	1.9
EV/EBITDA	59.5	55.6	28.6	20.0	16.8
Adjusted P/E	75.4	84.7	39.6	27.5	23.2
P/BV	6.1	5.9	5.3	4.6	3.9

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	82.0	82.2	79.2	78.0	78.0
Interest burden (PBT/EBIT)	98.1	97.3	98.2	99.1	99.1
EBIT margin (EBIT/Revenue)	7.5	5.3	8.8	10.2	10.3
Asset turnover (Rev./Avg TA)	132.8	157.9	194.4	212.8	217.2
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.1	1.1	1.1
Adjusted ROAE	8.4	7.1	14.1	17.9	18.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(7.0)	25.5	33.1	24.8	17.6
EBITDA	(26.8)	6.7	93.1	44.9	19.3
Adjusted EPS	(25.1)	(11.0)	113.7	44.2	18.3
Profitability & Return ratios (%)					
EBITDA margin	7.6	6.5	9.4	10.9	11.0
EBIT margin	7.5	5.3	8.8	10.2	10.3
Adjusted profit margin	6.0	4.3	6.8	7.9	8.0
Adjusted ROAE	8.4	7.1	14.1	16.7	17.0
ROCE	7.9	6.8	13.5	16.8	17.3
Working capital days (days)					
Receivables	9	7	8	8	8
Inventory	22	14	12	13	14
Payables	64	64	60	59	61
Ratios (x)					
Gross asset turnover	0.5	0.4	0.3	0.3	0.3
Current ratio	0.7	0.9	0.7	0.8	0.7
Net interest coverage ratio	(52.2)	(37.4)	(55.4)	(105.4)	(117.5)
Adjusted debt/equity	0.1	0.0	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

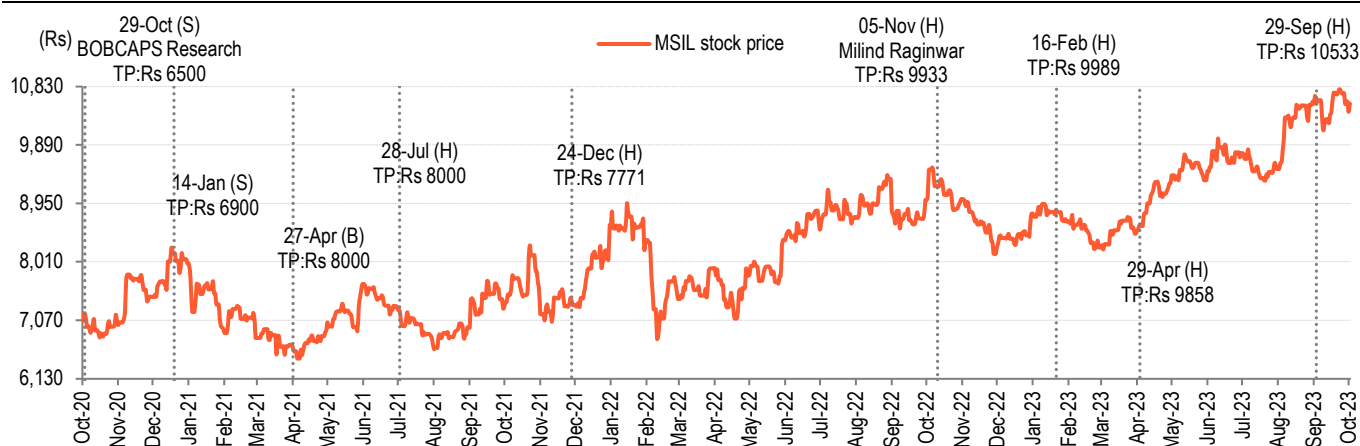
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): MARUTI SUZUKI (MSIL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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