

**HOLD**

TP: Rs 9,858 | ▲ 15%

**MARUTI SUZUKI**

| Automobiles

| 29 April 2023

### Short-term pricing blip

- Q4 volume growth soft due to an unfavourable mix; order book strong at 412k units (vs. 363k units in Q3FY23)
- Input cost inflation weighed on gross margin (-60bps QoQ); likely to continue for the next few quarters
- Maintain HOLD with a revised TP of Rs 9,858 (vs. Rs 9,989)

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**Volume growth tepid:** MSIL's Q4FY23 revenue grew 20% YoY (10% QoQ) to Rs 320.5bn aided by volume gains of 5% YoY (11% QoQ) and a 14% YoY rise in realisation (flat QoQ). Volumes were a tad below estimates due to the chip shortage which constrained the production mix. Despite a reduction in discounts, realisation was flat QoQ due to the adverse product mix.

**Operating margin continues to improve:** Raw material cost at 73.3% of sales increased 60bps QoQ, resulting in a similar sequential dip in gross margin to 26.7% (+25bps YoY). The commodity price impact was flat as softening in precious metals was offset by higher steel prices. Other expenses grew 13% YoY (5% QoQ) fueled by higher promotional costs. Favourable currency movement, a high-end product mix and improved pricing helped EBITDA grow 38% YoY (18% QoQ) to Rs 33.5bn, with operating margin up 135bps YoY (70bps QoQ) to 10.5%. PAT increased 43% YoY (12% QoQ) to Rs 26.2bn.

**New launches:** MSIL launched an S-CNG variant of *Grand Vitara* (also for exports) and launched sedan taxi *Tour S* for commercial customers. An S-CNG variant of *Brezza* also hit markets, indicating the company's continued focus on the CNG segment.

**Capacity expansion on track:** The manufacturing unit in IMT Kharkhoda with a capacity of 0.25mn vehicles per year is to be commissioned in FY25. MSIL is also planning expansion of 1mn vehicles a year at Manesar and Gurugram (existing capacity of 1.3mn units optimally utilised), backed by internal accruals.

**Maintain HOLD:** We expect MSIL to report a revenue/EBITDA/PAT CAGR of 19%/43%/48% over FY22-FY25 as volumes gather pace backed by new launches, input costs ease and realisations gain traction from high-end models. Despite an upbeat growth outlook, we maintain our HOLD rating as positives appear largely factored into current valuations of 21x FY25E EPS. We continue to value MSIL at 25x FY25E EPS, a marginal discount to its 10Y average, and tweak estimates post Q4 for a revised TP of Rs 9,858 (Rs 9,989 earlier).

### Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	MSIL IN/Rs 8,590
Market cap	US\$ 31.7bn
Free float	44%
3M ADV	US\$ 43.6mn
52wk high/low	Rs 9,769/Rs 7,062
Promoter/FPI/DII	56%/23%/16%

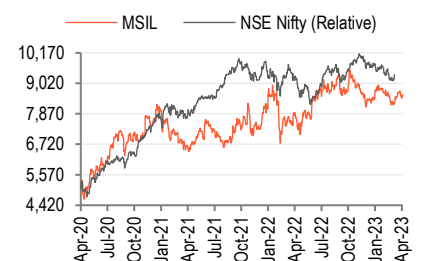
Source: NSE | Price as of 28 Apr 2023

### Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	8,82,956	11,75,229	13,02,099
EBITDA (Rs mn)	57,012	1,10,077	1,40,889
Adj. net profit (Rs mn)	37,662	80,492	1,00,482
Adj. EPS (Rs)	124.7	266.5	332.6
Consensus EPS (Rs)	124.7	266.5	358.0
Adj. ROAE (%)	7.1	14.1	14.8
Adj. P/E (x)	68.9	32.2	25.8
EV/EBITDA (x)	45.1	23.2	18.4
Adj. EPS growth (%)	(11.0)	113.7	24.8

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q4FY23	Q3FY23	Our view
Industry growth	Management expects the PV industry to grow at 5-7% in FY24, and MSIL aims to outpace industry growth.	NA	Outperformance will largely depend on resolution of supply chain issues. A favourable mix will be the key rather than absolute growth.
Margins	Realisation was flattish QoQ despite lower discounts as the semiconductor shortage meant chips had to be adjusted to available models. Additionally, the foreign exchange rate was stable. Management has guided for healthy realisations with an improving mix in FY24/25.	Gross margin expanded due to a combination of commodity price softening, reduction in overheads, favourable product mix and a forex gain of 50bps due to weakness in the yen against the rupee.	A focus on high-end products will aid margins, though the availability of necessary inputs will play a key role.
Discounts	Discounts during Q4 were Rs 13,269 per vehicle against Rs 11,130 in Q4FY22.	Discounts during Q3FY23 were at Rs 18,291 per vehicle	Discounts are heading downwards (compared to 3QFY23 which is a healthy sign for MSIL).
Supply-side constraints	Supply-side constraints remain a concern, due to which MSIL could not supply 0.17mn units in FY23. Management indicated that vulnerability towards the supply side remains (Q1FY24 likely to see greater impact than the other quarters of FY24).	Semiconductor constraints caused a production loss of 46k units, per management. Also, Q3 had fewer working days due to a maintenance shutdown. At present, semiconductor supply remains the only bottleneck, with MSIL seeing no constraints on the battery side.	Supply-side constraints are likely to check MSIL's aspirations to shift towards the MUV and SUV segments.
Price hike	Price hikes were taken in January due to cost pressures driven by overall inflation and BS6-2 regulatory requirements. MSIL also took a price increase of 0.8% effective April.	NA	Passthrough pricing is not a significant concern; EBITDA accretion is.
Order book	Pending orders as on 26 Apr 2023 totalled 0.41mn units. CNG is a third of the same and CNG penetration for FY23 was at 20%, after breaching this level for some months.	Pending customer orders stood at 0.36mn vehicles, of which orders for 0.12mn units were for recently launched models.	The order book continues to be strong, helping visibility for the medium term.
Commodities	Commodity prices of precious metals which constitute ~5% of overall material cost have softened in Q4, with benefits to accrue in Q1FY24. However, this will be offset by an uptick in other commodities like steel. Management expects steel prices to increase further.	MSIL noted improvement in commodity prices, exchange rate and overheads. However, as commodity price and foreign exchange impacts come with a quarter's lag, most of the benefit is already captured in Q3 with Q4 expected to see only marginal gains.	Steel prices are hardening and will be a key challenge in the short term.
Capacity	To expand production capacity, a new manufacturing facility in Industrial Model Township (IMT) Kharkhoda, Haryana, with a capacity of 0.25mn vehicles per year is to be commissioned in FY25.	NA	Capacity expansion is key for growth and a step in the right direction

Parameter	Q4FY23	Q3FY23	Our view
	MSIL plans to set up additional capacity of 1mn vehicles per year in Manesar and Gurugram (existing capacity of 1.3mn units is fully utilised) to be funded via internal accruals.		
Capex	FY23 capex was at ~Rs 60bn with Rs 80bn to be spent in FY24, a majority of which will be incurred towards the Kharkhoda plant, technology development and maintenance.	NA	Capex is largely internally funded without balance sheet pressure. Prudent capital allocation will be the key.
Exports	MSIL recorded its highest-ever exports of 0.259mn units in FY23. It commenced exports of <i>Grand Vitara</i> to Latin America and aims to export it to more than 60 countries across Latin America, Africa, Middle East, ASEAN and neighbouring regions. Export revenue was Rs 39bn for Q4 and Rs 146.5bn for FY23.	In CY22, MSIL registered exports of over 0.26mn vehicles, its highest ever in a calendar year. With the addition of <i>Grand Vitara</i> , the company aims to further strengthen its position as India's leading passenger vehicle exporter.	Export markets for four-wheeler passenger vehicle OEMs have been less challenging. With a focus on high-end products, this segment is likely to continue its healthy contribution to revenue.
EV	MSIL will come up with new launches in shared EV mobility in FY25.	The company has showcased concept electric SUV eVX and plans to bring it to market by CY25.	MSIL is consistent in its target to launch and enter the EV segment by FY25.
Regulations	BS-6 phase-2 norms do not have much impact on MSIL as it has no diesel portfolio. Thus, it will be marginally affected in terms of cost. For CAFE norms, MSIL has the least CO2 emissions and can hike prices to cover the cost.	MSIL is well positioned to meet demand, and its diesel exit a few years ago is benefiting the company. Since it has the lowest fleet carbon emissions, the company is comfortably positioned on CAFE regulations.	Exit from the diesel segment was timely and will be helpful in mitigating the impact of the new emission norms.

Source: Company, BOBCAPS Research

**Fig 2 – Quarterly performance (Standalone)**

(Rs mn)	Q4FY24	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Volume	514,927	488,830	5.3	465,911	10.5	1,966,164	1,652,653	19.0
Avg. Realisation per Vehicle	622,379	547,020	13.8	623,387	(0.2)	597,727	534,266	11.9
<b>Net Revenues</b>	<b>320,480</b>	<b>267,400</b>	<b>19.9</b>	<b>290,443</b>	<b>10.3</b>	<b>1,175,229</b>	<b>882,956</b>	<b>33.1</b>
Total Income (A)	320,480	267,400	19.9	290,443	10.3	1,175,229	882,956	33.1
<b>Operating Expenses:</b>								
Raw materials consumed	234,874	196,667	19.4	211,058	11.3	862,435	660,373	30.6
Employee Expenses	11,130	10,258	8.5	12,010	(7.3)	46,051	40,222	14.5
Other Expenses	40,973	36,207	13.2	39,044	4.9	158,099	125,743	25.7
Total Expenditure (B)	286,977	243,132	18.0	262,112	9.5	1,066,585	826,338	29.1
<b>EBITDA (A-B)</b>	<b>33,503</b>	<b>24,268</b>	<b>38.1</b>	<b>28,331</b>	<b>18.3</b>	<b>108,644</b>	<b>56,618</b>	<b>91.9</b>
Other Income	7,428	4,744	56.6	8,608	(13.7)	23,046	18,329	25.7
Depreciation	7,392	6,472	14.2	7,101	4.1	28,233	27,865	1.3
EBIT	33,539	22,540	48.8	29,838	12.4	103,457	47,082	119.7
Finance Costs	991	560	77.0	296	234.8	1,866	1,259	48.2
PBT after excep items	32,548	21,980	48.1	29,542	10.2	101,591	45,823	121.7
Tax expense	6,312	3,591	75.8	6,029	4.7	21,099	8,160	158.6
Reported PAT	26,236	18,389	42.7	23,513	11.6	80,492	37,663	113.7
<b>Adjusted PAT</b>	<b>26,236</b>	<b>18,389</b>	<b>42.7</b>	<b>23,513</b>	<b>11.6</b>	<b>80,492</b>	<b>37,663</b>	<b>113.7</b>
Adj EPS (Rs)	86.9	60.9	42.7	77.9	11.6	266.5	124.7	113.7
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
Gross Margin (%)	26.7	26.5	26	27.3	(62)	26.6	25.2	141
EBITDA Margin (%)	10.5	9.1	138	9.8	70	9.2	6.4	283
EBIT Margin (%)	10.5	8.4	204	10.3	19	8.8	5.3	347
PBT Margin (%)	10.2	8.2	194	10.2	(2)	8.6	5.2	345
Tax Rate (%)	19.4	16.3	306	20.4	(102)	20.8	17.8	296
Adj PAT Margin (%)	8.2	6.9	131	8.1	9	6.8	4.3	258

Source: Company, BOBCAPS Research

## Valuation methodology

We expect MSIL to report a healthy revenue/EBITDA/PAT CAGR of 19%/43%/48% over FY22-FY25 as volumes gather pace backed by new launches, input costs ease and realisations gain traction from high-end models. Our gross margin estimates hover at the decadal average of ~27% and we estimate an EBITDA margin of 11% for both FY24 and FY25.

Despite an upbeat growth outlook, we maintain our HOLD rating as positives appear largely factored into current valuations of 21x FY25E EPS. We continue to value MSIL at 25x FY25E EPS, a marginal discount to its 10-year average, and tweak estimates following the Q4FY23 results for a revised TP of Rs 9,858 (Rs 9,989 earlier). The shift towards SUV/MUV volumes over the lower-end mini and compact segments will be key to watch.

**Fig 3 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	1,302,099	1,488,247	1,302,099	1,488,247	0.0	0.0
EBITDA	140,889	168,083	140,889	168,083	0.0	0.0
Adj PAT	100,482	121,550	100,019	122,663	0.5	(0.9)
Adj EPS (Rs)	332.6	402.4	331.1	406.1	0.5	(0.9)

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

Parameter	FY22	FY23	FY24E	FY25E
Volume (nos)	1,652,653	1,966,164	2,181,502	2,397,471
ASP (Rs)	534,266	597,727	596,882	620,757
Revenues	882,956	1,175,229	1,302,099	1,488,247
EBITDA	57,012	108,644	140,889	168,083
Operating margin (%)	7.7	9.2	10.8	11.3
Adjusted Net Profit	37,662	80,492	100,482	121,550
Adjusted EPS (Rs)	124.7	266.5	332.6	402.4

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	9,858	332.6	402.4	15.7	16.7
Mahindra & Mahindra	MM IN	BUY	1,496	69.3	75.9	17.3	16.3
Tata Motors	TTMT IN	NOT RATED	-	29.7	41.1	21.8	24.4

Source: BOBCAPS Research, Bloomberg

## Key risks

- A faster-than-expected rise in the SUV segment could be a positive surprise as well as a speedier revival in export markets.
- A spurt in commodity prices beyond estimates may keep margins under pressure, representing a downside risk to our estimates.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5.2	146	169	BUY
Bajaj Auto	BJAUT IN	15.7	4,432	4,188	HOLD
Eicher Motors	EIM IN	11.0	3,301	3,543	HOLD
Escorts	ESCORTS IN	3.3	1,981	1,742	SELL
Hero MotoCorp	HMCL IN	6.2	2,559	2,712	HOLD
Mahindra & Mahindra	MM IN	18.8	1,227	1,496	BUY
Maruti Suzuki	MSIL IN	31.7	8,590	9,858	HOLD
TVS Motor	TVSL IN	6.6	1,138	1,252	HOLD
VST Tillers Tractors	VSTT IN	0.3	2,493	2,802	BUY

Source: BOBCAPS Research, NSE | Price as of 28 Apr 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Total revenue</b>	<b>7,03,325</b>	<b>8,82,956</b>	<b>11,75,229</b>	<b>13,02,099</b>	<b>14,88,247</b>
EBITDA	53,453	57,012	1,10,077	1,40,889	1,68,083
Depreciation	30,315	27,866	28,233	30,422	32,897
EBIT	52,602	47,081	1,03,457	1,31,129	1,59,368
Net interest inc./(exp.)	(1,008)	(1,259)	(1,866)	(1,425)	(1,511)
Other inc./(exp.)	29,464	17,935	21,613	20,663	24,183
Exceptional items	0	0	0	0	0
EBT	51,594	45,822	1,01,591	1,29,704	1,57,857
Income taxes	9,297	8,160	21,099	29,222	36,307
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>42,297</b>	<b>37,662</b>	<b>80,492</b>	<b>1,00,482</b>	<b>1,21,550</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>42,297</b>	<b>37,662</b>	<b>80,492</b>	<b>1,00,482</b>	<b>1,21,550</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	1,01,681	1,31,402	1,39,917	1,79,989	2,11,134
Other current liabilities	47,208	26,235	39,295	46,447	52,898
Provisions	7,875	9,446	10,500	2,517	2,517
Debt funds	26,629	26,000	38,256	40,906	43,764
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	6,02,310	6,78,626	7,76,010
Shareholders' fund	5,25,006	5,40,862	6,03,820	6,80,136	7,77,520
<b>Total liab. and equities</b>	<b>7,08,399</b>	<b>7,33,945</b>	<b>8,31,788</b>	<b>9,49,995</b>	<b>10,87,834</b>
Cash and cash eq.	30,364	30,362	377	50,721	59,703
Accounts receivables	12,766	20,301	32,958	31,250	37,206
Inventories	30,500	35,331	42,838	55,339	66,971
Other current assets	35,975	60,518	87,243	79,179	90,346
Investments	4,17,867	4,07,633	4,77,564	5,55,564	6,53,564
Net fixed assets	1,52,545	1,40,076	1,46,494	1,46,072	1,43,175
CWIP	11,923	26,391	32,444	20,000	25,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(588)	2,027	0	0	0
Other assets	17,047	11,304	11,869	11,869	11,869
<b>Total assets</b>	<b>7,08,399</b>	<b>7,33,943</b>	<b>8,31,787</b>	<b>9,49,995</b>	<b>10,87,834</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Cash flow from operations</b>	<b>73,672</b>	<b>25,665</b>	<b>60,421</b>	<b>1,45,328</b>	<b>1,37,597</b>
Capital expenditures	(23,597)	(29,865)	(40,704)	(17,556)	(35,000)
Change in investments	(53,191)	10,234	(69,931)	(78,000)	(98,000)
Other investing cash flows	29,464	17,935	21,613	20,663	24,183
<b>Cash flow from investing</b>	<b>(47,324)</b>	<b>(1,696)</b>	<b>(89,022)</b>	<b>(74,893)</b>	<b>(1,08,817)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	3,769	(629)	12,256	2,650	2,858
Interest expenses	(1,008)	(1,259)	(1,866)	(1,425)	(1,511)
Dividends paid	(18,125)	(13,594)	(27,187)	(24,166)	(24,166)
Other financing cash flows	(127)	(2,615)	2,027	0	0
<b>Cash flow from financing</b>	<b>(15,491)</b>	<b>(18,097)</b>	<b>(14,770)</b>	<b>(22,941)</b>	<b>(22,818)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>10,857</b>	<b>5,872</b>	<b>(43,372)</b>	<b>47,494</b>	<b>5,961</b>
<b>Closing cash &amp; cash eq.</b>	<b>30,364</b>	<b>30,362</b>	<b>377</b>	<b>50,721</b>	<b>59,703</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	140.0	124.7	266.5	332.6	402.4
Adjusted EPS	140.0	124.7	266.5	332.6	402.4
Dividend per share	60.0	60.0	90.0	80.0	80.0
Book value per share	1,738.0	1,790.5	1,998.9	2,251.5	2,573.9

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.7	2.9	2.2	2.0	1.7
EV/EBITDA	48.3	45.1	23.2	18.4	15.3
Adjusted P/E	61.3	68.9	32.2	25.8	21.3
P/BV	4.9	4.8	4.3	3.8	3.3

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	82.0	82.2	79.2	77.5	77.0
Interest burden (PBT/EBIT)	98.1	97.3	98.2	98.9	99.1
EBIT margin (EBIT/Revenue)	7.5	5.3	8.8	10.1	10.7
Asset turnover (Rev./Avg TA)	132.8	157.9	194.4	191.0	193.0
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.1	1.1	1.1
<b>Adjusted ROAE</b>	<b>8.4</b>	<b>7.1</b>	<b>14.1</b>	<b>15.7</b>	<b>16.7</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(7.0)	25.5	33.1	10.8	14.3
EBITDA	(26.8)	6.7	93.1	28.0	19.3
Adjusted EPS	(25.1)	(11.0)	113.7	24.8	21.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	7.6	6.5	9.4	10.8	11.3
EBIT margin	7.5	5.3	8.8	10.1	10.7
Adjusted profit margin	6.0	4.3	6.8	7.7	8.2
Adjusted ROAE	8.4	7.1	14.1	14.8	15.6
ROCE	7.9	6.8	13.5	14.9	15.9
<b>Working capital days (days)</b>					
Receivables	9	7	8	9	8
Inventory	22	14	12	14	15
Payables	64	64	57	62	66
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.4	0.3	0.3	0.3
Current ratio	0.7	0.9	0.9	0.9	1.0
Net interest coverage ratio	(52.2)	(37.4)	(55.4)	(92.0)	(105.5)
<b>Adjusted debt/equity</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

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%

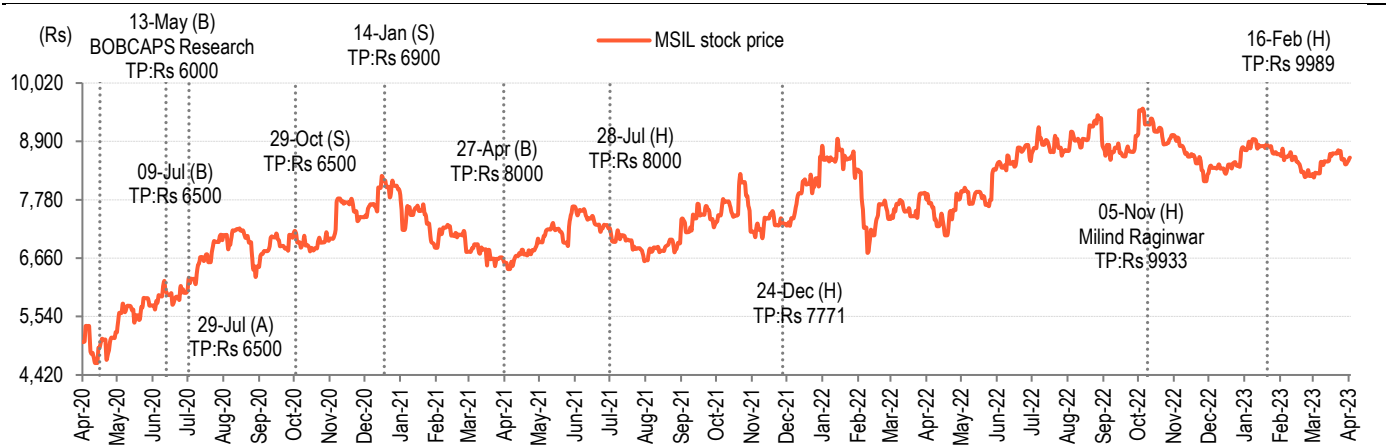
**HOLD** – Expected return from -6% to +15%

**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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