RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 13,305 | ▲ 5%

MARUTI SUZUKI | Automobiles | 03 August 2024

Healthy show continues; maintain HOLD on elevated valuations

- **Q1 revenue grew 10% YoY driven by demand in SUVs and realisations which improved 5%/4% YoY/QoQ**
- **Softening commodities costs and healthy volumes helped EBITDA margin expand by 344 bps YoY to 12.7% (+42bps QoQ)**
- **We value the stock at 25x P/E 1Y forward earnings, on par with its 10Y average, and revise its TP to Rs 13,305 (from Rs 12,965). Retain HOLD**

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Steady topline growth aided by realisation gains: MSIL's Q1FY25 revenue grew 10.0% YoY (-7.1% QoQ) to Rs 355bn in a challenging quarter. This was backed by 5% YoY volume gains (-10.6% QoQ) and realisation improvement of 5%/4% YoY/QoQ. Higher SUV demand continued to drive sales volume of 521.8k units. Average blended realisation/vehicle was Rs 680.8mn. MSIL extended higher discounts/vehicle for Q1FY25 (Rs 21.7k vs Rs 14.5k in Q4FY24).

Operating margin expands YoY, remained flat QoQ: Raw material cost at 71.4% of sales dropped 262bps YoY and 120bps QoQ, aiding gross margin improvement of 262bps YoY (120bps QoQ) to 29.8%. Other expenditure rose 4.3% YoY (fell 7.3% QoQ) to Rs 45.3bn. Higher sales volume, cost reduction efforts and favourable commodity prices helped EBITDA grow 50.9% YoY to ~Rs 45bn, with margin expansion of 344bps YoY to 12.7% (flat QoQ).

Capacity expansion plans: MSIL commissioned additional facility at Manesar with capacity to manufacture 0.1mn units in Q1FY25, increasing the manufacturing capacity at the Manesar facility to 0.9mn/year. MSIL also increased the capacity of Ertiga and the supply of CNG vehicles. Further, MSIL's planned expansion at Kharkhoda (Haryana) with a capacity of 0.25mn vehicles/p.a. is due to become operational in CY25. MSIL has signed an MoU with the Gujarat government to set up a 1mn unit plant by FY29 and has earmarked Rs 350bn of capex.

Maintain HOLD on steep valuation; estimates unchanged: We maintain our FY25/FY26 EPS, factoring an in-line expected show in Q1FY25. We introduce FY27 earnings with 3Y Revenue/EBITDA/PAT CAGR of 14%/15%/11%. Our gross margin assumptions hover at ~29% with EBITDA margin of ~12% over our forecast period. We factor in upbeat growth outlook backed by MSIL's focus on premiumisation, healthy capex and thrust on electric vehicles (EVs). However, the elevated valuations leave limited room for uptick. Effectively, we maintain our HOLD rating. We continue to value the stock at 25x P/E 1-year forward earnings, on par with its 10Y average, yielding a higher TP of Rs 13,305 (from Rs 12,965).

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	MSIL IN/Rs 12,726
Market cap	US$ 45.9bn
Free float	44%
3M ADV	US$ 92.8mn
52wk high/low	Rs 13,680/Rs 9,254
Promoter/FPI/DII	56%/23%/16%

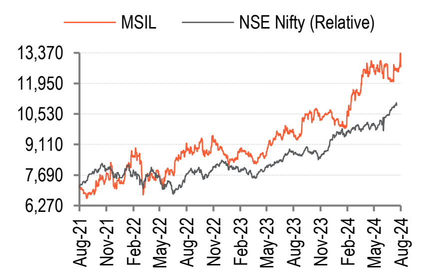
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	14,09,326	16,28,760	18,47,013
EBITDA (Rs mn)	1,64,011	1,93,512	2,20,664
Adj. net profit (Rs mn)	1,32,094	1,42,362	1,59,169
Adj. EPS (Rs)	437.3	471.3	526.9
Consensus EPS (Rs)	437.3	475.6	531.2
Adj. ROAE (%)	15.8	15.1	14.9
Adj. P/E (x)	29.1	27.0	24.2
EV/EBITDA (x)	23.4	20.3	17.7
Adj. EPS growth (%)	64.1	7.8	11.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q1FY25	Q4FY24	Our view
Volumes	MSIL sold 521.8k vehicles during Q1FY25, 4.8% higher YoY. In Q1FY25, sales from the domestic market stood at 451.3k units, up by 3.8% YoY. In the domestic market, the demand for passenger vehicles (PVs) was muted to some extent, largely due to the heatwave and elections that impacted walk-ins.	Industry growth for passenger vehicles was 8.3% in FY23-24. Hatchback sales were down to 27% from 46% in 2018-19 and steadily replaced by sports utility vehicle (SUV) sales. CNG vehicles accounted for 15% share from 10.4% YoY and hybrid and EV penetration remained at 2% each. Green vehicles grew by 42% compared to 37% YoY. SUVs contributed to over 50% of the market and was the key driver of growth in the passenger vehicle market.	MSIL continues to focus on a favourable mix. In terms of launches, MSIL launched its fourth-generation EPIC New Swift in May'24. Also, MSIL introduced the Dream Series as new offers for potential buyers in the small car segment. The revival in first-time users and rural demand will aid lower-end demand too.
Margins	In Q1FY25, marginal benefits from commodities and products offsets the increased discounts. Operating income contributed 70bps to margin expansion which includes staff sales, extended warranty income from business, etc. Manufacturing and admin expenses contributed 30bps to margin expansion. Reduction in volume by 10.5%, i.e, 521.8k in Q1FY25 from 584.0k in Q4FY24, had a negative impact of 80bps on operating leverage.	EBITDA margin had limited traction of ~60bps QoQ despite a 50bps price hike and discounts lower by 140bps cumulatively having ~200bps benefit including forex gains. This was largely due to commodity price inflation of 20bps, product mix and constraints in CNG supplies. Margins improved sharply YoY.	Mild reversal in commodity prices and component shortage of CNG vehicles may impact margins in the short term. However, an increasing share of high-end products will help MSIL retain better product mix and, hence, gross/EBITDA margins.
Discounts	Discounts extended per vehicle for Q1FY25 were at Rs 21.7k compared to Rs 14.5k in Q4FY24.	Discounts offered at retail sales were Rs 18.0k.	Better raw material cost mix helped offset the higher discount impact.
Supply	MSIL increased production capacity of Ertiga as it had a high CNG percentage. MSIL increased the supply of CNG vehicles too.	Certain components in CNG vehicles were in short supply in 4QFY24 which impacted CNG sales at 27%, lower than the 30.2% QoQ.	With limited supply-side constraints in the near future, growth will be more secure.
Order book	MSIL has indicated 0.6mn CNG car units for FY25. In Q1FY25, MSIL achieved slightly less than 0.15mn units.	Total pending order book was 0.2mn units, unchanged QoQ. Of the pending order book 0.11mn units were for CNG variants with the bulk outstanding for the Ertiga model.	The capacity addition at Manesar should address the Ertiga waiting period, in our view.
Commodities	Gross margins on a QoQ basis improved 90bps, of which 60bps was one-off. Effectively only 30bps improvement was seen as key commodities like steel remained favourable to the extent of about Rs 2.5/kg when compared with Q4FY24 to Q1FY25.	Copper and aluminium prices are likely to inflate (copper/aluminum are 1%/3% of MSIL's net sales). Steel exposure is about ~11% of net sales and hardening in 1QFY25. Platinum, palladium, rhodium are ~2.5% of sales and are softening.	Some negative surprises may be stored in due to commodity cost inflation in the near term.
Capacity	In Q1FY25, MSIL commissioned an additional facility at Manesar with the capacity to manufacture 0.1mn units. With this the total manufacturing capacity at the Manesar facility will be 0.9mn per annum.	Management has targeted the increase of annual sales to 4mn units by FY31. Kharkhoda plant with an operational capacity of ~0.25mn units is expected to be operational in CY25 and pace up to four plants of similar size at the same location, taking the capacity to 1mn units. The capacity addition at Manesar should address the demand for Ertiga. MSIL has signed an MoU with the Gujarat government to set up a manufacturing facility with an annual capacity of 1mn units in the state to be operational by FY29.	Capacity expansion is key for growth and is being addressed by management. MSIL's focus on the EV segment is a step in the right direction.

Parameter	Q1FY25	Q4FY24	Our view
Exports	Sales volume in the export market was ~70.56K units, growth of 11.6% YoY from 1QFY24. MSIL had 40% of share in India's total passenger vehicle exports in Q1FY25. The royalty payment stayed at 3.5% of sales.	Sales volume in the export market was ~78k units, growth of 21.7% YoY in 4Q. Exports were 13% of total sales in FY24. MSIL plans to export 0.3mn units in FY25.	Exports still form a relatively small proportion of the topline. Steady exports demand will aid revenue growth.
Electric Vehicles	MSIL will display its EV Model at the motor show, the auto expo or the Bharat Mobility Show in Jan'25. MSIL has six electric vehicle (EV) models lined up till 2031 and plans to launch one EV model every year. MSIL has guided for 0.6mn CNG car units for FY25. In Q1FY25, MSIL achieved slightly less than 0.15mn units.	MSIL is on track to commence EV production in CY24. Despite a change in the global scenario for EVs, MSIL will not change launch timings. MSIL would like to have more hybrid models depending on CO_2 emissions, customer acceptance, volume, viability, and new technology absorption.	This is in line with the company's long-term guidance of launching EVs by FY25-end.
Other key points	MSIL aims to maintain inventory level of around 30 days. At the end of Q1FY25, the company's inventory level stood at 37 days but it expects levels to be manageable going forward.	Management suggested 0.13mn units inventory by end-FY24, implying one month inventory with dealers. However, this is unhealthy as this implies at least one variant will be absent with the showroom/dealership. But with the increased sales volume one month of inventory will be the new norm.	No major concerns over maintaining marginally higher inventory as this will be reversed in the festive season.

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Volume (units)	5,21,868	4,98,030	4.8	5,84,031	(10.6)
Avg. Realisation per Vehicle (Rs)	6,80,850	6,49,095	4.9	6,54,672	4.0
Net Revenues	3,55,314	3,23,269	9.9	3,82,349	(7.1)
Total Income (A)	**3,55,314**	**3,23,269**	**9.9**	**3,82,349**	**(7.1)**
Operating Expenses:					
Raw materials consumed	2,49,329	2,35,317	6.0	2,72,884	(8.6)
Employee Expenses	15,576	14,609	6.6	13,662	14.0
Other Expenses	45,386	43,513	4.3	48,953	(7.3)
Total Expenditure (B)	**3,10,291**	**2,93,439**	**5.7**	**3,35,499**	**(7.5)**
EBITDA (A-B)	**45,023**	**29,830**	**50.9**	**46,850**	**(3.9)**
Other Income	9,751	10,012	(2.6)	11,180	(12.8)
Depreciation	7,310	7,475	(2.2)	7,290	0.3
EBIT	47,464	32,367	46.6	50,740	(6.5)
Finance Costs	573	465	23.2	762	(24.8)
PBT after excep items	46,891	31,902	47.0	49,978	(6.2)
Tax expense	10,392	7,051	47.4	11,200	(7.2)
Reported PAT	**36,499**	**24,851**	**46.9**	**38,778**	**(5.9)**
Adjusted PAT	**36,499**	**24,851**	**46.9**	**38,778**	**(5.9)**
Adj EPS (Rs)	120.9	82.3	46.9	128.4	(5.9)
Key Ratios (%)			**(bps)**		**(bps)**
Gross Margin	29.8	27.2	262	28.6	120
EBITDA Margin	12.7	9.2	344	12.3	42
EBIT Margin	13.4	10.0	335	13.3	9
PBT Margin	13.2	9.9	333	13.1	13
Tax Rate	22.2	22.1	6	22.4	(25)
Adj PAT Margin	10.3	7.7	258	10.1	13

Source: Company, BOBCAPS Research

Valuation methodology

We maintain our FY25/FY26 EPS factoring in the in-line showing expected for Q1FY25. We introduce FY27E earnings with 3Y Revenue/EBITDA/PAT CAGR of 14%/15%/11%. Our gross margin assumptions hover at ~29% with EBITDA margin of ~12% over our forecast period. We factor in an upbeat growth outlook backed by MSIL's focus on premiumisation, healthy capex and thrust on electric vehicles. However, the elevated valuations leave limited room for uptick.

Effectively, we maintain our HOLD rating. We continue to value the stock at 25x P/E 1-year forward earnings, on par with its 10Y average, yielding a revised TP of Rs 13,305 (from Rs 12,965).

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	16,28,760	18,47,013	21,09,058	16,28,760	18,47,013	NA	(0.0)	0.0	NA
EBITDA	1,93,512	2,20,664	2,47,052	1,93,512	2,20,664	NA	0.0	0.0	NA
Adj PAT	1,42,362	1,59,169	1,78,419	1,42,666	1,59,785	NA	(0.2)	(0.4)	NA
Adj EPS (Rs)	471.3	526.9	590.6	472.3	528.9	NA	(0.2)	(0.4)	NA

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY24P	FY25E	FY26E	FY27E
Volume (nos)	20,64,472	23,27,502	25,13,702	27,33,651
ASP (Rs)	6,66,465	6,99,789	7,34,778	7,71,517
Revenues (Rs mn)	14,09,326	16,28,760	18,47,013	21,09,058
EBITDA (Rs mn)	1,64,011	1,93,512	2,20,664	2,47,052
Operating margin (%)	11.6	11.9	11.9	11.7
Adjusted Net Profit (Rs mn)	1,32,094	1,42,362	1,59,169	1,78,419
Adjusted EPS (Rs)	437	471	527	591

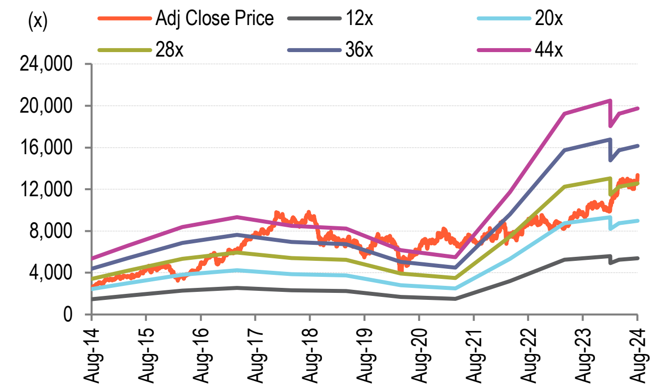
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
Maruti Suzuki	MSIL IN	HOLD	13,305	471.3	526.9	16	15.8
Mahindra & Mahindra	MM IN	BUY	3,279	100.1	118.8	21.1	21.1
Tata Motors	TTMT IN	NOT RATED	-	66.5	80.1	25.9	24.4

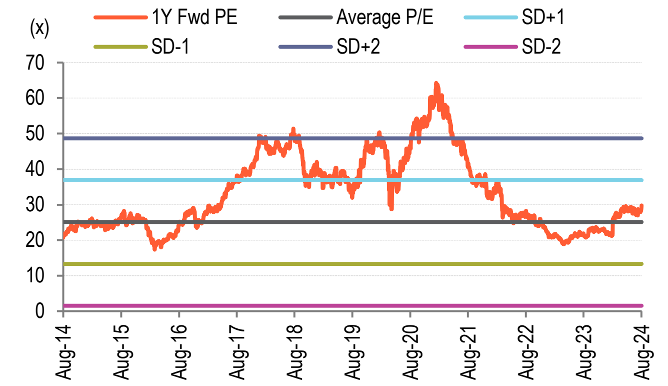
Source: BOBCAPS Research

Fig 6 – P/E band: We value MSIL at 25x 1-year forward EPS



Source: Company, Bloomberg, BOBCAPS Research

Fig 7 – P/E 1Y fwd: The valuation is at mean average



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key upside/downside risks to our estimates are:

- intense competitive pressure leading to irrational price cuts,
- commodity inflation subsiding faster than expected, and
- delays in model launches in various segments, including CNG and electric vehicles.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Total revenue	**11,75,229**	**14,09,326**	**16,28,760**	**18,47,013**	**21,09,058**
EBITDA	1,10,077	1,64,011	1,93,512	2,20,664	2,47,052
Depreciation	28,233	30,223	37,158	43,682	48,926
EBIT	1,03,457	1,72,336	1,84,164	2,08,544	2,33,706
Net interest inc./(exp.)	(1,866)	(1,932)	(1,649)	(1,831)	(1,239)
Other inc./(exp.)	21,613	38,548	27,810	31,561	35,581
Exceptional items	0	0	0	0	0
EBT	1,01,591	1,70,404	1,82,515	2,06,713	2,32,467
Income taxes	21,099	38,310	40,153	47,544	54,049
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**80,492**	**1,32,094**	**1,42,362**	**1,59,169**	**1,78,419**
Adjustments	0	0	0	0	0
Adjusted net profit	**80,492**	**1,32,094**	**1,42,362**	**1,59,169**	**1,78,419**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Accounts payables	1,51,982	1,73,677	2,06,574	2,36,207	2,69,719
Other current liabilities	27,163	43,890	44,247	52,627	60,944
Provisions	10,500	13,514	14,865	16,352	17,987
Debt funds	38,322	31,947	33,532	24,025	17,275
Other liabilities	0	0	0	0	0
Equity capital	1,510	1,572	1,510	1,510	1,510
Reserves & surplus	6,02,311	8,35,227	9,44,375	10,65,040	11,98,902
Shareholders' fund	6,03,821	8,36,799	9,45,885	10,66,550	12,00,412
Total liab. and equities	**8,31,788**	**10,99,827**	**12,45,103**	**13,95,761**	**15,66,337**
Cash and cash eq.	377	1,579	16,652	21,074	39,835
Accounts receivables	32,958	46,013	40,719	47,099	53,781
Inventories	42,838	41,196	65,150	74,804	85,417
Other current assets	55,324	62,190	70,721	78,192	86,184
Investments	4,77,564	6,85,137	7,41,015	8,37,015	9,42,015
Net fixed assets	1,78,938	1,96,580	2,29,422	2,45,741	2,56,815
CWIP	28,081	53,712	65,000	75,000	85,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	3,411	1,124	4,127	4,540	4,994
Other assets	12,296	12,296	12,296	12,296	12,296
Total assets	**8,31,787**	**10,99,827**	**12,45,103**	**13,95,761**	**15,66,337**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Cash flow from operations	**91,473**	**1,44,994**	**1,57,475**	**1,85,453**	**2,08,702**
Capital expenditures	(68,785)	(73,496)	(81,288)	(70,000)	(70,000)
Change in investments	(69,931)	(2,07,573)	(55,878)	(96,000)	(1,05,000)
Other investing cash flows	21,613	38,548	27,810	31,561	35,581
Cash flow from investing	**(1,17,103)**	**(2,42,521)**	**(1,09,356)**	**(1,34,439)**	**(1,39,419)**
Equities issued/Others	0	62	(62)	0	0
Debt raised/repaid	12,322	(6,375)	1,585	(9,506)	(6,750)
Interest expenses	(1,866)	(1,932)	(1,649)	(1,831)	(1,239)
Dividends paid	(18,125)	(27,187)	(39,300)	(44,802)	(51,074)
Other financing cash flows	(1,384)	2,287	(3,003)	(413)	(454)
Cash flow from financing	**(9,053)**	**(33,145)**	**(42,429)**	**(56,552)**	**(59,517)**
Chg in cash & cash eq.	**(34,683)**	**(1,30,672)**	**5,689**	**(5,539)**	**9,765**
Closing cash & cash eq.	**377**	**1,579**	**16,652**	**21,074**	**39,835**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
Reported EPS	266.5	437.3	471.3	526.9	590.6
Adjusted EPS	266.5	437.3	471.3	526.9	590.6
Dividend per share	60.0	90.0	130.1	148.3	169.1
Book value per share	1,998.9	2,770.1	3,131.2	3,530.7	3,973.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
EV/Sales	3.2	2.7	2.4	2.1	1.8
EV/EBITDA	34.6	23.4	20.3	17.7	15.5
Adjusted P/E	47.8	29.1	27.0	24.2	21.5
P/BV	6.4	4.6	4.1	3.6	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	79.2	77.5	78.0	77.0	76.8
Interest burden (PBT/EBIT)	98.2	98.9	99.1	99.1	99.5
EBIT margin (EBIT/Revenue)	8.8	12.2	11.3	11.3	11.1
Asset turnover (Rev./Avg TA)	194.4	186.6	176.3	178.5	182.7
Leverage (Avg TA/Avg Equity)	1.1	1.0	1.0	1.0	1.0
Adjusted ROAE	14.1	18.3	16.0	15.8	15.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	33.1	19.9	15.6	13.4	14.2
EBITDA	93.1	49.0	18.0	14.0	12.0
Adjusted EPS	113.7	64.1	7.8	11.8	12.1
Profitability & Return ratios (%)					
EBITDA margin	9.4	11.6	11.9	11.9	11.7
EBIT margin	8.8	12.2	11.3	11.3	11.1
Adjusted profit margin	6.8	9.4	8.7	8.6	8.5
Adjusted ROAE	14.1	15.8	15.1	14.9	14.9
ROCE	13.5	17.4	15.2	15.2	15.2
Working capital days (days)					
Receivables	8	10	10	9	9
Inventory	12	11	12	14	14
Payables	60	59	60	62	62
Ratios (x)					
Gross asset turnover	0.3	0.3	0.3	0.3	0.3
Current ratio	0.7	0.7	0.7	0.7	0.8
Net interest coverage ratio	(55.4)	(89.2)	(111.7)	(113.9)	(188.6)
Adjusted debt/equity	0.1	0.0	0.0	0.0	0.0

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%

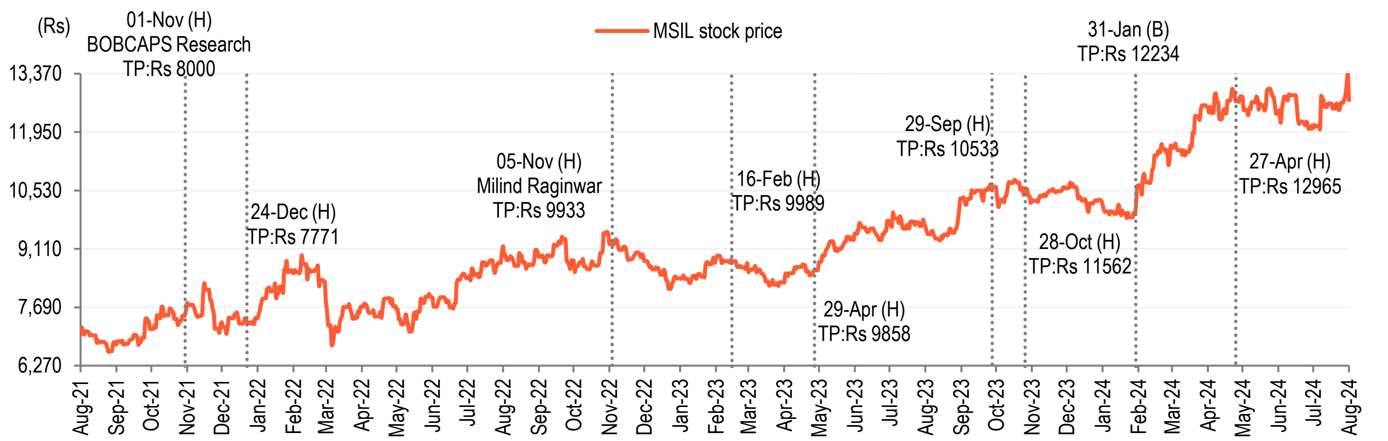
HOLD – Expected return from -6% to +15%

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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