

HOLD

TP: Rs 9,989 | ▲ 13%

MARUTI SUZUKI

| Automobiles

| 16 February 2023

Focus shifts to high-margin segment

- Q3 gross margin stays healthy at 27% (25% in Q3FY22) due to softer raw material cost and better synergies; realisations drive sales
- Two new SUVs launched with a target of achieving leadership in the high-end SUV segment by FY24
- Growth outlook healthy but priced in; maintain HOLD with a new TP of Rs 9,989 on rollover (vs. Rs 9,933 earlier)

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Revenue driven by healthy realisation: MSIL's Q3FY23 revenue grew 25% YoY (-3% QoQ) to Rs 290bn supported by an 8% YoY increase in volumes (-10% QoQ on a high base). Net blended realisation per vehicle (NRPV) came in at Rs 623k (+16% YoY/+8% QoQ).

Margins improve on softer commodity prices: Raw material cost softened following better synergies (operating leverage) at 73% of sales to Rs 211bn vs. Rs 175bn in Q3FY22. This helped gross margin improve 300bps YoY to 27.3%. Other expenses declined QoQ to stand at 13% of sales. In addition to cost savings, favourable currency movement and a better product mix helped EBITDA to grow 82% YoY to Rs 28.3bn and EBITDA margin to rise 350bps YoY to 9.8%.

Focused on achieving leadership in SUVs: MSIL launched two new SUVs – 'Jimny' and 'Fronx' – and aims to achieve leadership in the segment by FY24. The company has showcased a concept electric SUV 'eVX' (launch by 2025). It has commenced exports of 'Grand Vitara' and aims to sell it in over 60 countries.

Capacity expansion and capex: MSIL is planning capacity expansion to 2.5mn units which includes 0.1mn units of brownfield capacity in Manesar (Haryana) by FY24. A new facility at Kharkhoda in Haryana will contribute from FY25 (0.25mn units). Management plans to spend Rs 70bn in FY23 (Rs 35bn incurred in H1FY23) which includes R&D and maintenance-related capex.

Maintain HOLD: We expect MSIL to report a revenue/EBITDA/PAT CAGR of 19%/43%/48% over FY22-FY25, with gross margin of 27% and EBITDA margin of 11% for both FY24/FY25 as input costs ease and realisations gain traction. EPS is forecast at Rs 331/Rs 406 and ROE/ROCE at 15-16% by FY25. Despite the upbeat growth outlook, we maintain HOLD as the current valuation of 21x FY25E EPS partly prices in the positives, leaving limited upside. We roll valuations over to FY25E and value MSIL at 25x P/E, a marginal discount to its 10Y average, for a revised target price of Rs 9,989 (vs. Rs 9,933).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MSIL IN/Rs 8,805
Market cap	US\$ 32.2bn
Free float	44%
3M ADV	US\$ 54.1mn
52wk high/low	Rs 9,769/Rs 6,537
Promoter/FPI/DII	56%/23%/16%

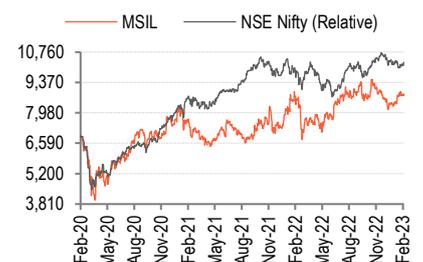
Source: NSE | Price as of 16 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	882,956	1,127,358	1,302,099
EBITDA (Rs mn)	57,012	103,263	140,889
Adj. net profit (Rs mn)	37,662	70,352	100,019
Adj. EPS (Rs)	124.7	232.9	331.1
Consensus EPS (Rs)	124.7	290.5	366.4
Adj. ROAE (%)	7.1	12.5	15.1
Adj. P/E (x)	70.6	37.8	26.6
EV/EBITDA (x)	46.3	25.4	18.6
Adj. EPS growth (%)	(11.0)	86.8	42.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- **Realisations:** Average selling price (ASP) increased 8.5% QoQ in Q3FY23 despite higher discounts of Rs 18.3k vs. Rs 13.8k in Q2FY23 (as retail sales were more than wholesale) and minimum price hikes. ASP was primarily driven by higher demand for newer models and bigger cars. A bulk of the order book also comprises larger cars.
- **Gross margin:** The gross margin expanded due to a mix of commodity softening, reduction in overheads, favourable product mix and a forex gain of 50bps due to weakness in the yen against the rupee.
- **Costs:** MSIL noted improvement in commodity prices, exchange rate and overheads. However, as commodity prices and foreign exchange impact come with a quarter's lag, most of the benefit is already captured in Q3 with Q4 expected to see only marginal gains.
- **Supply side:** Per management, semiconductor constraints caused a production loss of 46k units. 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.
- **Pending orders:** MSIL indicated that pending customer orders stood at ~363,000 vehicles, of which ~119,000 orders were for recently launched models.
- **Inventory:** The company entered Q3 with adequate network stock in anticipation of good demand during the festive period. It could thus maximise its retail sales and has only about five days of network stock at the end of Q3.
- **CNG:** CNG penetration is healthy but prices are high. Per management, if recommendations of the Kirit Parekh Committee are accepted, they would lead to better CNG sales. At present, commercial vehicles sales have been impacted significantly by the shift to CNG. MSIL has expanded its green car portfolio to the Nexa channel by offering CNG powertrain technology on the 'Grand Vitara', 'XL6' and 'Baleno'. With this, it now offers 14 models with factory-fitted CNG technology.
- **Regulations:** The entire system of airbags, including electronics and controls, raises ownership cost by Rs 20k. Since Real Driving Emission (RDE) is a subset of BS6 Phase 2, MSIL is well positioned to meet demand, and its diesel exit a few years ago is benefiting the company. Since MSIL has the lowest fleet carbon emissions, the company is comfortably positioned on CAFÉ regulations.
- **Other key points:** (1) Total exposure on the yen is now close to JPY 100mn, both direct and indirect. (2) Royalty was at 3.9% of sales due to higher new launches and retail sales of 480,000 units in the domestic market during the quarter. (3) Hatchbacks are at 3% penetration in the country and management expects this to grow. (4) The company inaugurated 3,500 new car sales outlets with a presence across 2,250 cities in Q3.

Fig 1 – Quarterly performance (Standalone)

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Volume	465,911	430,668	8.2	517,395	(10.0)	1,451,237	1,163,823	24.7
Avg. Realisation per Vehicle	623,387	539,766	15.5	578,490	7.8	588,980	528,909	11.4
Net Revenues	290,443	232,460	24.9	299,308	(3.0)	854,749	615,556	38.9
Total Income (A)	290,443	232,460	24.9	299,308	(3.0)	854,749	615,556	38.9
Operating Expenses:								
Raw materials consumed	211,058	175,031	20.6	218,801	(3.5)	627,561	463,706	35.3
Employee Expenses	12,010	9,699	23.8	11,327	6.0	34,921	29,964	16.5
Other Expenses	39,044	32,140	21.5	41,491	(5.9)	117,126	89,536	30.8
Total Expenditure (B)	262,112	216,870	20.9	271,619	(3.5)	779,608	583,206	33.7
EBITDA (A-B)	28,331	15,590	81.7	27,689	2.3	75,141	32,350	132.3
Other Income	8,608	3,280	162.4	6,125	40.5	15,618	13,585	15.0
Depreciation	7,101	6,400	11.0	7,226	(1.7)	20,841	21,393	(2.6)
EBIT	29,838	12,470	139.3	26,588	12.2	69,918	24,542	184.9
Finance Costs	296	252	17.5	305	(3.0)	875	699	25.2
PBT after excep items	29,542	12,218	141.8	26,283	12.4	69,043	23,843	189.6
Tax expense	6,029	2,105	186.4	5,668	6.4	14,787	4,569	223.6
Reported PAT	23,513	10,113	132.5	20,615	14.1	54,256	19,274	181.5
Adjusted PAT	23,513	10,113	132.5	20,615	14.1	54,256	19,274	181.5
Adj EPS (Rs)	77.9	33.5	132.5	68.3	14.1	179.7	63.8	181.5

Source: Company, BOBCAPS Research

Valuation methodology

We expect MSIL to report a healthy revenue/EBITDA/PAT CAGR of 19%/43%/48% over FY22-FY25. Our gross margin estimates hover at the decadal average of ~27% for these years as input costs ease and realisations gain traction from high-end models. For FY24/FY25, we estimate an EBITDA margin of 11% and EPS of Rs 331/Rs 406, with ROE/ROCE gradually rising to 15-16% by FY25.

Despite an upbeat growth outlook, we maintain our HOLD rating as the current valuation of 21x FY25E EPS partly prices in the positives, leaving limited upside. We roll valuations over to FY25E and value MSIL at 25x P/E, a marginal discount to its 10-year average, for a revised target price of Rs 9,989 (vs. Rs 9,933).

Fig 2 – Key assumptions

Parameters (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Volume (nos)	1,457,861	1,652,653	1,983,184	2,181,502	2,397,471
ASP (Rs)	482,436	534,266	568,459	596,882	620,757
Revenues	703,325	882,956	1,127,358	1,302,099	1,488,247
EBITDA	53,453	57,012	103,263	140,889	168,083
Operating margin (%)	7.6	7.7	9.2	10.8	11.3
Adjusted Net Profit	42,297	37,662	70,352	100,019	122,663
Adjusted EPS (Rs)	140.0	124.7	232.9	331.1	406.1

Source: Company, BOBCAPS Research

Fig 3 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Maruti Suzuki India Ltd	MSIL IN	HOLD	9,989	331.1	406.1	16.0	17.2
Mahindra & Mahindra Ltd	MM IN	BUY	1,496	69.3	75.9	17.3	16.3
Tata motors Ltd	TTMT IN	Unrated	-	28.6	40.4	21.8	24.9

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- Raw material cost softening faster-than-expected,
- Favourable currency movement ahead of estimates, and
- Stronger than anticipated revival in key markets.

Key downside risks are:

- Fierce competitive pressure arresting efforts to gain market share, and
- Government opting unfavourable policy changes in passenger vehicle segment, dampening overall sentiment.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5.4	151	169	BUY
Bajaj Auto	BJAUT IN	13.7	3,907	3,636	HOLD
Hero MotoCorp	HMCL IN	6.2	2,557	2,712	HOLD
Mahindra & Mahindra	MM IN	20.7	1,368	1,496	BUY
Maruti Suzuki	MSIL IN	32.2	8,805	9,989	HOLD
TVS Motor	TVSL IN	6.5	1,124	1,068	HOLD
VST Tillers Tractors	VSTT IN	0.2	2,232	2,802	BUY

Source: BOBCAPS Research, NSE | Price as of 16 Feb 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	703,325	882,956	1,127,358	1,302,099	1,488,247
EBITDA	53,453	57,012	103,263	140,889	168,083
Depreciation	30,315	27,866	28,582	30,422	32,897
EBIT	52,602	47,081	92,087	130,532	158,771
Net interest inc./(exp.)	(1,008)	(1,259)	(1,310)	(1,425)	(1,511)
Other inc./(exp.)	29,464	17,935	17,405	20,065	23,585
Exceptional items	0	0	0	0	0
EBT	51,594	45,822	90,777	129,107	157,260
Income taxes	9,297	8,160	20,425	29,088	34,597
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	42,297	37,662	70,352	100,019	122,663
Adjustments	0	0	0	0	0
Adjusted net profit	42,297	37,662	70,352	100,019	122,663

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	101,681	131,402	158,861	179,989	211,134
Other current liabilities	47,208	26,235	39,295	46,447	52,898
Provisions	7,875	9,446	9,729	2,517	2,517
Debt funds	26,629	26,000	27,479	29,052	30,725
Other liabilities	0	0	0	0	0
Equity capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	523,496	539,352	585,738	661,591	760,088
Shareholders' fund	525,006	540,862	587,248	663,101	761,598
Total liab. and equities	708,399	733,945	822,612	921,106	1,058,872
Cash and cash eq.	30,364	30,362	31,938	34,533	43,443
Accounts receivables	12,766	20,301	25,920	31,250	37,206
Inventories	30,500	35,331	45,111	55,339	66,971
Other current assets	35,975	60,518	71,417	79,179	90,346
Investments	417,867	407,633	462,633	540,633	638,633
Net fixed assets	152,545	140,076	146,494	146,072	143,175
CWIP	11,923	26,391	25,000	20,000	25,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(588)	2,027	2,230	2,230	2,230
Other assets	17,047	11,304	11,869	11,869	11,869
Total assets	708,399	733,943	822,612	921,106	1,058,872

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	73,672	25,665	94,157	106,698	139,307
Capital expenditures	(23,597)	(29,865)	(33,609)	(25,000)	(35,000)
Change in investments	(53,191)	10,234	(55,000)	(78,000)	(98,000)
Other investing cash flows	29,464	17,935	17,405	20,065	23,585
Cash flow from investing	(47,324)	(1,696)	(71,204)	(82,935)	(109,415)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	3,769	(629)	1,479	1,573	1,673
Interest expenses	(1,008)	(1,259)	(1,310)	(1,425)	(1,511)
Dividends paid	(18,125)	(13,594)	(24,166)	(24,166)	(24,166)
Other financing cash flows	(127)	(2,615)	(203)	0	0
Cash flow from financing	(15,491)	(18,097)	(24,199)	(24,018)	(24,004)
Chg in cash & cash eq.	10,857	5,872	(1,246)	(255)	5,888
Closing cash & cash eq.	30,364	30,362	31,938	34,533	43,443

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	140.0	124.7	232.9	331.1	406.1
Adjusted EPS	140.0	124.7	232.9	331.1	406.1
Dividend per share	60.0	60.0	80.0	80.0	80.0
Book value per share	1,738.0	1,790.5	1,944.0	2,195.1	2,521.2

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.8	3.0	2.3	2.0	1.8
EV/EBITDA	49.5	46.3	25.4	18.6	15.6
Adjusted P/E	62.9	70.6	37.8	26.6	21.7
P/BV	5.1	4.9	4.5	4.0	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	82.0	82.2	77.5	77.5	78.0
Interest burden (PBT/EBIT)	98.1	97.3	98.6	98.9	99.0
EBIT margin (EBIT/Revenue)	7.5	5.3	8.2	10.0	10.7
Asset turnover (Rev./Avg TA)	132.8	157.9	190.8	199.3	200.5
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	8.4	7.1	12.5	16.0	17.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(7.0)	25.5	27.7	15.5	14.3
EBITDA	(26.8)	6.7	81.1	36.4	19.3
Adjusted EPS	(25.1)	(11.0)	86.8	42.2	22.6
Profitability & Return ratios (%)					
EBITDA margin	7.6	6.5	9.2	10.8	11.3
EBIT margin	7.5	5.3	8.2	10.0	10.7
Adjusted profit margin	6.0	4.3	6.2	7.7	8.2
Adjusted ROAE	8.4	7.1	12.5	15.1	16.1
ROCE	7.9	6.8	12.0	15.4	16.6
Working capital days (days)					
Receivables	9	7	7	8	8
Inventory	22	14	13	14	15
Payables	64	64	63	65	66
Ratios (x)					
Gross asset turnover	0.5	0.4	0.3	0.3	0.3
Current ratio	0.7	0.9	0.8	0.9	0.9
Net interest coverage ratio	(52.2)	(37.4)	(70.3)	(91.6)	(105.1)
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%

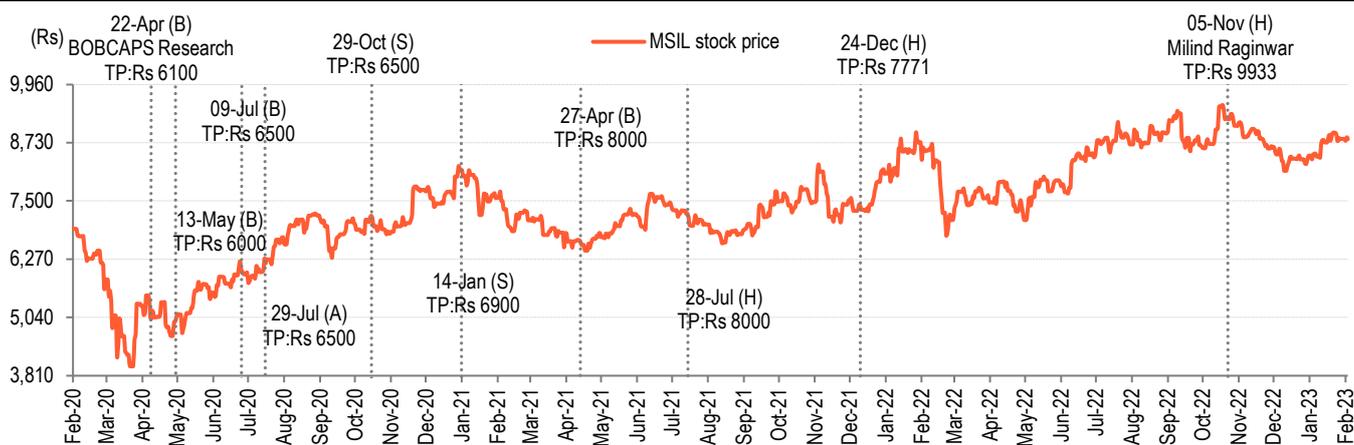
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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