

HOLD
TP: Rs 12,965 | ▲ 2%

MARUTI SUZUKI

| Automobiles

| 27 April 2024

Steady performance, but steep valuations; downgrade to HOLD

- Q4 volumes grew 13% YoY driven by healthy demand for SUVs; rural demand for lower-end segment shows no signs of revival
- Realisation gains (+5% YoY), softening costs and higher volumes lifted EBITDA margin 180bps YoY to 12.3%, limited traction QoQ
- Downgrade from BUY to HOLD on run-up in valuations; TP raised to Rs 12,965 (from Rs 12,234) and EPS estimates 5%/6% for FY25/FY26

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Volumes and realisations gain: MSIL’s Q4FY24 revenue grew 19% YoY (-15% QoQ) to Rs 382bn, backed by 13%/17%% volume gains YoY/QoQ and 5% realisation growth (-1% QoQ). Sales volume at 584.0k units was driven by increasing SUV demand (industry share at ~50% in Q4). Average blended realisation/vehicle was Rs 654.6k stemming from a mix of price hikes (50bps) and discounts at Rs 18.0k lower than ~Rs 23.3k per vehicle in 3QFY24.

Operating margin expands YoY, limited traction QoQ: Raw material cost at 71.4% of sales dropped 190bps YoY (+50bps QoQ), aiding gross margin improvement of 190bps YoY (-50bps QoQ) to 28.6%. Higher sales volume, cost reduction efforts and favourable commodity prices helped EBITDA grow 23% YoY (-to ~Rs 47bn, with margin expansion of 180bps. The margin traction was limited at 50bps (GM dropped) despite lower discounts, ASP rise and forex gains.

Capacity expansion on track: MSIL’s planned expansion at Kharkhoda (Haryana) with a capacity of 0.25mn vehicles a year is due to become operational in CY25. The Manesar plant expansion of 0.1mn units will cater to the current shortfall in Ertiga models. The company has signed an MoU with the Gujarat government to set up a 1mn-unit plant in the state by FY29 and has earmarked a Rs350bn capex.

Downgrade to HOLD on steep valuation; increase estimates: We raise our FY25/FY26 EPS estimates by 5%/6% factoring in the healthy show in FY24. We model for a 3Y CAGR of 23%/26%/26% in Revenue/EBITDA/PAT. Our gross margin assumptions hover at ~29% with EBITDA margins of ~12% over our forecast period. The revision factors in an upbeat growth outlook backed by MSIL’s focus on premiumisation, healthy capex and thrust on electric vehicles (EVs). However, the recent steep run up in valuations leaves limited room for uptick. Effectively, we downgrade the stock from a BUY rating to HOLD. We continue to value the stock at 25x P/E, on par with its 10Y average yielding a revised TP of Rs 12,965 (from Rs 12,234). Margin expansion traction in the short term is limited given early commodity reversal trends in 1QFY25, steep competition in the SUV segment and entry in the EV space.

Key changes

Target	Rating
▲	▼

Ticker/Price	MSIL IN/Rs 12,703
Market cap	US\$ 46.7bn
Free float	44%
3M ADV	US\$ 77.4mn
52wk high/low	Rs 13,074/Rs 8,471
Promoter/FPI/DII	56%/23%/16%

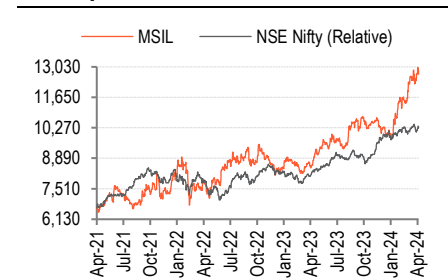
Source: NSE | Price as of 26 Apr 2024

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	1,42,666	1,59,785
Adj. EPS (Rs)	437.3	472.3	528.9
Consensus EPS (Rs)	437.3	473.0	514.0
Adj. ROAE (%)	15.7	14.8	14.6
Adj. P/E (x)	29.1	26.9	24.0
EV/EBITDA (x)	23.4	20.2	17.6
Adj. EPS growth (%)	64.1	8.0	12.0

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

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY24	Q3FY24	Our view
Volumes	<p>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 (PV) market</p>	<p>Industry SUV volume share rose to ~53% in Q3FY24. Utility vehicles (UVs) collectively form ~63% of the industry. CNG vehicles accounted for ~16.5% share in Q3 and Hybrid vehicles held at 2%.</p> <p>MSIL's sales volume grew 7.6% YoY. With good acceptance of all seven UVs, MSIL continues to be a market leader in the segment.</p>	<p>MSIL continues to focus on a favourable mix. The revival in first-time users and rural demand will aid lower-end demand too.</p>
Margins	<p>EBITDA margin had limited traction of ~60bps QoQ despite 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.</p>	<p>EBITDA margin declined QoQ due to lower wholesale volume share and operating leverage. Margin improvement YoY stemmed from forex gains, royalty income and easing commodity cost.</p>	<p>Commodity prices reversal from softness, product mix and component shortage of CNG vehicles impacted margins QoQ. However, an increasing share of high-end products will help MSIL retain gross/EBITDA margins.</p>
Discounts	<p>Discounts offered at retail sales were Rs 18.0k.</p>	<p>Discounts were ~Rs 23.3k per vehicle.</p>	<p>Despite lower discounts, volume growth was healthy.</p>
Supply	<p>Certain components in CNG vehicles were in short supply in 4QFY24 which impacted CNG sales at 27%, lower than the 30.2% QoQ.</p>	<p>Semiconductor issues have been resolved for now and management does not expect shortages for the foreseeable future, nor does it anticipate significant cost and supply disturbances due to the Red Sea crisis.</p>	<p>With limited supply-side constraints in the near future, except for minor glitches, MSIL's only challenge will be to add capacities to maintain or expand its volume market share.</p>
Order book	<p>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.</p>	<p>The pending order book as on Q3FY24 was ~0.2mn units.</p>	<p>The capacity addition at Manesar should be able to address the Ertiga waiting period.</p>
Commodities	<p>Copper and aluminium prices are likely to inflate (copper and AL are 1%/ 3% of MSIL's net sales). Steel exposure is about ~11% of net sales and hardening in 1QFY25. Platinum, palladium, rhodium is ~2.5% of sales and are softening.</p>	<p>Steel prices increased marginally while other commodities (palladium, rhodium and others) corrected in Q3. Management expects this trend to continue in Q4FY24.</p>	<p>The short/medium outlook on commodities indicates some negative surprises.</p>
Capacity	<p>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 Ertiga demand.</p>	<p>Management intends to increase annual production capacity to 4mn units by FY31. The Kharkhoda plant with an operational capacity of ~250k units is expected to be operational in CY25.</p> <p>MSIL has signed an MoU with the Gujarat government to set up a manufacturing facility</p>	<p>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.</p>

Parameter	Q4FY24	Q3FY24	Our view
	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.	in the state with an annual capacity of 1mn units and to be operational by FY29.	
Capex	Capex guidance for the proposed Gujarat plant is ~Rs 350bn. However, the site location has not been finalised.	Capex guidance for the proposed Gujarat plant is ~Rs 350bn.	Prudent capital allocation will be key. Capex is largely internally funded with no major pressure on the balance sheet.
Exports	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.	Export volumes grew 16% YoY to 71.8k units and exports are picking up well in Africa and the Middle East. Management expects to reach export volumes of ~750k units by CY30 (from ~270k units in CY23).	Exports still form a relatively small proportion of the topline. Steady export demand will aid revenue growth.
Electric vehicles	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 CO2 emissions, customer acceptance, volume, viability, and new technology absorption.	MSIL is on track to commence production of battery electric vehicles (BEVs) in CY24 and will also cater to Japanese and European markets. Its first EV will be an SUV with a 550km range and battery capacity of 60kWh.	MSIL has maintained its target of entering the EV segment by FY25 and has a long-term plan in place.
Other key points	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 showrooms/dealership. But with the increased sales volume one month of inventory will be the new norm.	The share of hatchbacks in the industry decreased from a peak of 47% in FY18 to 25% in Q3FY24. Management does not expect immediate recovery in the small car segment due to higher costs and the low income levels of segment buyers.	Inventory position suggests some discomfort due to lack of required models at the dealers' end. This needs to be addressed.

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

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Volume (units)	5,84,031	5,14,927	13.4	5,01,207	16.5
Avg. Realisation per Vehicle (Rs)	6,54,672	6,22,379	5.2	6,64,570	(1.5)
Net Revenues	3,82,349	3,20,480	19.3	3,33,087	14.8
Total Income (A)	3,82,349	3,20,480	19.3	3,33,087	14.8
Operating Expenses:					
Raw materials consumed	2,72,884	2,34,874	16.2	2,36,176	15.5
Employee Expenses	13,662	11,130	22.7	13,386	2.1
Other Expenses	48,953	40,973	19.5	44,446	10.1
Total Expenditure (B)	3,35,499	2,86,977	16.9	2,94,008	14.1
EBITDA (A-B)	46,850	33,503	39.8	39,079	19.9
Other Income	11,180	7,428	50.5	9,330	19.8
Depreciation	7,290	7,392	(1.4)	7,517	(3.0)
EBIT	50,740	33,539	51.3	40,892	24.1
Finance Costs	762	991	(23.1)	354	115.3
PBT after excep items	49,978	32,548	53.6	40,538	23.3
Tax expense	11,200	6,312	77.4	9,238	21.2
Reported PAT	38,778	26,236	47.8	31,300	23.9
Adjusted PAT	38,778	26,236	47.8	31,300	23.9
Adj EPS (Rs)	128.4	86.9	47.8	103.6	23.9
Key Ratios (%)			(bps)		(bps)
Gross Margin	28.6	26.7	192	29.1	(47)
EBITDA Margin	12.3	10.5	180	11.7	52
EBIT Margin	13.3	10.5	281	12.3	99
PBT Margin	13.1	10.2	292	12.2	90
Tax Rate	22.4	19.4	302	22.8	(38)
Adj PAT Margin	10.1	8.2	196	9.4	75

Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY25/FY26 EPS estimates by 5%/6% factoring in the healthy show in FY24. We model for a 3Y CAGR of 23%/26%/26% in revenue/EBITDA/PAT. Our gross margin assumptions hover at ~29% with EBITDA margins of ~12% over our forecast period. The revision factors in an upbeat growth outlook backed by MSIL's focus on premiumisation, healthy capex and thrust on EVs.

However, the steep valuations run-up recently leaves limited room for uptick. Effectively, we downgrade the stock from a BUY rating to HOLD. We continue to value the stock at 25x P/E, on par with its 10Y average yielding a revised TP of Rs 12,965 (from Rs 12,234). Margin expansion traction in the short term is limited given early commodity reversal trends in 1QFY25, steep competition in the SUV segment and entry into the EV space.

Fig 3 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	16,28,760	18,47,013	1,574,717	1,805,635	3.4	2.3
EBITDA	1,93,512	2,20,664	188,997	214,147	2.4	3.0
Adj PAT	1,42,666	1,59,785	135,204	150,779	5.5	6.0
Adj EPS (Rs)	472.3	528.9	447.6	499.1	5.5	6.0

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Volume (nos)	19,66,164	20,64,472	23,27,502	25,13,702
ASP (Rs)	5,97,727	6,66,465	6,99,789	7,34,778
Revenues (Rs mn)	11,75,229	14,09,326	16,28,760	18,47,013
EBITDA (Rs mn)	1,10,077	1,64,011	1,93,512	2,20,664
Operating margin (%)	9.4	11.6	11.9	11.9
Adjusted Net Profit (Rs mn)	80,492	1,32,094	1,42,666	1,59,785
Adjusted EPS (Rs)	266	437	472	529

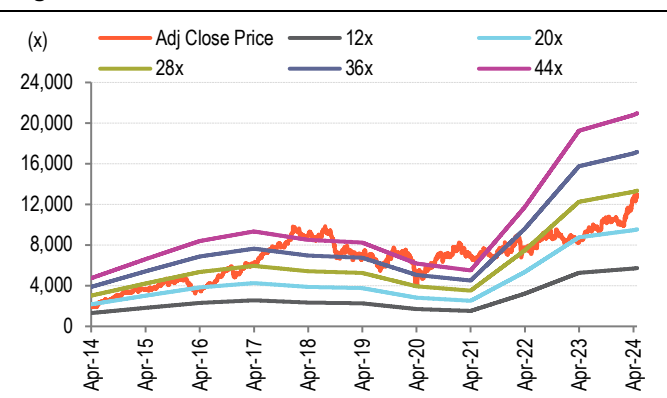
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
Maruti Suzuki	MSIL IN	HOLD	12,965	472	529	15.8	15.5
Mahindra & Mahindra	MM IN	BUY	2,077	94.6	103.4	19.0	17.6
Tata Motors	TTMT IN	NOT RATED	-	48.4	58.0	32.4	28.5

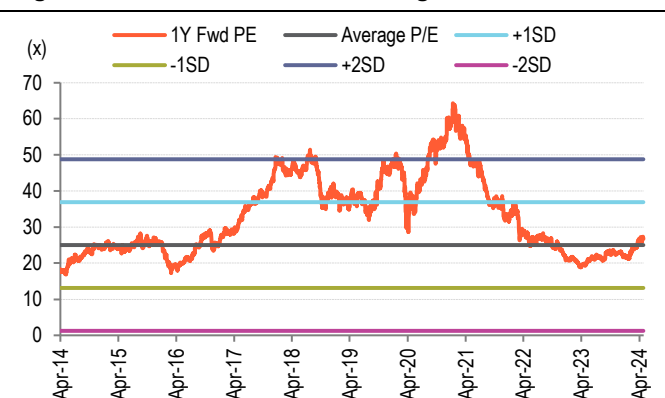
Source: BOBCAPS Research| TTMT Bloomberg Consensus Estimates

Fig 6 – P/E band: MSIL has limited valuation headroom



Source: Bloomberg, BOBCAPS Research

Fig 7 – P/E 1Y fwd: Trades at its long-term mean



Source: Bloomberg, BOBCAPS Research

Key risks

Key downside/upside risks to our estimates are:

- commodity inflation subsiding faster than expected,
- delays in model launches, and
- intense competitive pressure leading to irrational price cuts.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	6.6	185	226	BUY
Bajaj Auto	BJAUT IN	31.6	8,974	6,823	SELL
Eicher Motors	EIM IN	15.3	4,601	4,045	HOLD
Escorts	ESCORTS IN	5.3	3,292	2,389	SELL
Hero MotoCorp	HMCL IN	10.9	4,492	4,671	HOLD
Maruti Suzuki	MSIL IN	46.7	12,703	12,965	HOLD
TVS Motor	TVSL IN	11.7	2,017	2,242	BUY
VST Tillers Tractors	VSTT IN	0.4	3,530	3,213	HOLD

Source: BOBCAPS Research, NSE | Price as of 26 Apr 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	8,82,956	11,75,229	14,09,326	16,28,760	18,47,013
EBITDA	57,012	1,10,077	1,64,011	1,93,512	2,20,664
Depreciation	27,866	28,233	30,223	37,158	43,682
EBIT	47,081	1,03,457	1,72,336	1,84,554	2,09,344
Net interest inc./(exp.)	(1,259)	(1,866)	(1,932)	(1,649)	(1,831)
Other inc./(exp.)	17,935	21,613	38,548	28,200	32,361
Exceptional items	0	0	0	0	0
EBT	45,822	1,01,591	1,70,404	1,82,905	2,07,513
Income taxes	8,160	21,099	38,310	40,239	47,728
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	37,662	80,492	1,32,094	1,42,666	1,59,785
Adjustments	0	0	0	0	0
Adjusted net profit	37,662	80,492	1,32,094	1,42,666	1,59,785

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	1,31,402	1,51,982	1,73,677	2,06,574	2,36,207
Other current liabilities	26,235	27,163	43,890	44,247	52,627
Provisions	9,446	10,500	13,514	14,865	16,352
Debt funds	26,000	38,322	31,947	33,532	24,025
Other liabilities	0	0	0	0	0
Equity capital	1,510	1,510	1,572	1,510	1,510
Reserves & surplus	5,39,352	6,02,311	8,38,248	9,59,209	10,93,610
Shareholders' fund	5,40,862	6,03,821	8,39,820	9,60,719	10,95,120
Total liab. and equities	7,33,945	8,31,788	11,02,848	12,59,937	14,24,331
Cash and cash eq.	30,362	377	4,600	11,487	29,645
Accounts receivables	20,301	32,958	46,013	40,719	47,099
Inventories	35,331	42,838	41,196	65,150	74,804
Other current assets	60,518	55,324	62,190	70,721	78,192
Investments	4,07,633	4,77,564	6,85,137	7,61,015	8,57,015
Net fixed assets	1,40,076	1,78,938	1,96,580	2,29,422	2,45,741
CWIP	26,391	28,081	53,712	65,000	75,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	2,027	3,411	1,124	4,127	4,540
Other assets	11,304	12,296	12,296	12,296	12,296
Total assets	7,33,943	8,31,787	11,02,848	12,59,937	14,24,331

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	25,665	91,473	1,44,994	1,57,389	1,85,269
Capital expenditures	(29,865)	(68,785)	(73,496)	(81,288)	(70,000)
Change in investments	10,234	(69,931)	(2,07,573)	(75,878)	(96,000)
Other investing cash flows	17,935	21,613	38,548	28,200	32,361
Cash flow from investing	(1,696)	(1,17,103)	(2,42,521)	(1,28,966)	(1,33,639)
Equities issued/Others	0	0	62	(62)	0
Debt raised/repaid	(629)	12,322	(6,375)	1,585	(9,506)
Interest expenses	(1,259)	(1,866)	(1,932)	(1,649)	(1,831)
Dividends paid	(13,594)	(18,125)	(24,166)	(27,791)	(31,682)
Other financing cash flows	(2,615)	(1,384)	2,287	(3,003)	(413)
Cash flow from financing	(18,097)	(9,053)	(30,124)	(30,920)	(43,432)
Chg in cash & cash eq.	5,872	(34,683)	(1,27,651)	(2,497)	8,198
Closing cash & cash eq.	30,362	377	4,600	11,487	29,645

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	124.7	266.5	437.3	472.3	528.9
Adjusted EPS	124.7	266.5	437.3	472.3	528.9
Dividend per share	45.0	60.0	80.0	92.0	104.9
Book value per share	1,790.5	1,998.9	2,780.1	3,180.3	3,625.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	4.3	3.2	2.7	2.4	2.1
EV/EBITDA	66.9	34.5	23.4	20.2	17.6
Adjusted P/E	101.9	47.7	29.1	26.9	24.0
P/BV	7.1	6.4	4.6	4.0	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	82.2	79.2	77.5	78.0	77.0
Interest burden (PBT/EBIT)	97.3	98.2	98.9	99.1	99.1
EBIT margin (EBIT/Revenue)	5.3	8.8	12.2	11.3	11.3
Asset turnover (Rev./Avg TA)	157.9	194.4	186.2	174.6	174.8
Leverage (Avg TA/Avg Equity)	1.0	1.1	1.0	1.0	1.0
Adjusted ROAE	7.1	14.1	18.3	15.8	15.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	25.5	33.1	19.9	15.6	13.4
EBITDA	6.7	93.1	49.0	18.0	14.0
Adjusted EPS	(11.0)	113.7	64.1	8.0	12.0
Profitability & Return ratios (%)					
EBITDA margin	6.5	9.4	11.6	11.9	11.9
EBIT margin	5.3	8.8	12.2	11.3	11.3
Adjusted profit margin	4.3	6.8	9.4	8.8	8.7
Adjusted ROAE	7.1	14.1	15.7	14.8	14.6
ROCE	6.8	13.5	17.3	15.1	15.0
Working capital days (days)					
Receivables	7	8	10	10	9
Inventory	14	12	11	12	14
Payables	64	60	59	60	62
Ratios (x)					
Gross asset turnover	0.4	0.3	0.3	0.3	0.3
Current ratio	0.9	0.7	0.7	0.7	0.8
Net interest coverage ratio	(37.4)	(55.4)	(89.2)	(111.9)	(114.3)
Adjusted debt/equity	0.0	0.1	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%

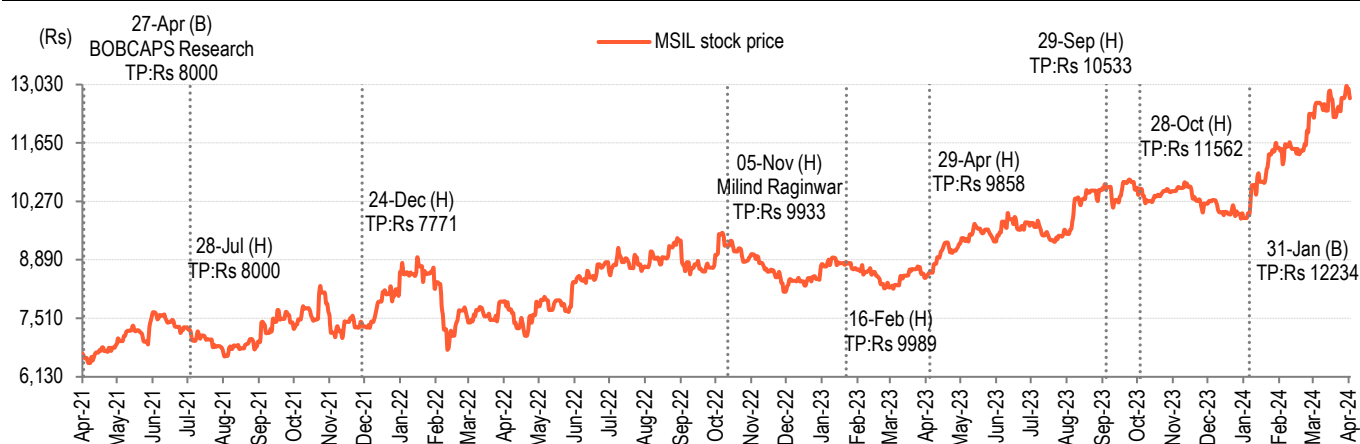
HOLD – Expected return from -6% to +15%

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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