RESULT REVIEW

HOLD

TP: Rs 9,933 | ⮝ 8%

MARUTI SUZUKI | Automobiles | 05 November 2022

Healthy performance

- **Q2 gross margin improved to 27% (25% in Q1) due to softer raw material cost and better synergies; volumes up 11% QoQ on festive sales**
- **Pending customer orders total 0.41mn vehicles at Q2-end and include 0.13mn units of high-margin models such as Ertiga/Baleno**
- **Growth outlook healthy but priced in post recent rally; we assume coverage with HOLD and TP of Rs 9,933**

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Buoyant revenue growth: MSIL's Q2FY23 revenue jumped 13% QoQ (+46% YoY) to Rs 299bn supported by an 11% increase in volumes as festive demand kicked in (we prefer a sequential comparison due to YoY distortions from a weak Covid-hit base). Net blended realisation per vehicle (NRPV) came in at Rs 578k (+2% QoQ).

Margins improve as RM cost softens: Raw material cost inflation softened following better synergies (operating leverage) at 73% of sales (74%/76% in Q1FY23/Q2FY22) to Rs 218bn vs. Rs 265bn in Q1FY23. This helped gross margin improve to 27% (25%/24% in Q1FY23/Q2FY22). Other expenses were flat QoQ at 14% of sales. In addition to cost savings, favourable currency movement helped EBITDA to grow 45% QoQ to Rs 27.7bn (3x YoY) and EBITDA margin to rise +200bps to 9.3%.

Focus on market share: MSIL is striving to regain market share (currently at 41%) and retains its dominant presence in the passenger vehicle space (51% pre-Covid in FY19). The company has focused on the high-end SUV segment with launches of 'Grand Vitara', the new 'Brezza' and upgrades to 'XL6' and 'Ertiga'. In the medium term, management expects the contribution from the small/mini segment to reduce as that of SUVs and compact SUVs increases.

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.

HOLD, TP Rs 9,854: We expect MSIL to report a revenue/EBITDA/PAT CAGR of 19%/43%/48% over FY22-FY25. Our FY24/FY25 estimates for gross/EBITDA margins stand at 27%/11% 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 an upbeat growth outlook, we assume coverage with HOLD as the stock has rallied ~10% in the past month and prices in the positives at current valuations of 28x FY24E EPS. We value MSIL at 30x FY24E EPS, in line with its long-term (10Y) average, for a TP of Rs 9,933.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MSIL IN/Rs 9,230
Market cap	US$ 33.9bn
Free float	44%
3M ADV	US$ 67.6mn
52wk high/low	Rs 9,769/Rs 6,537
Promoter/FPI/DII	56%/23%/16%

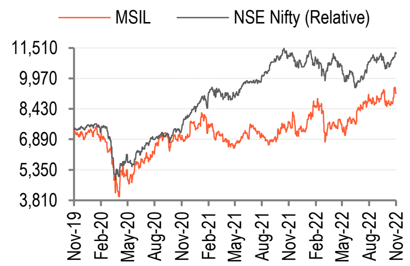
Source: NSE | Price as of 4 Nov 2022

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)	74.0	39.6	27.9
EV/EBITDA (x)	48.5	26.6	19.5
Adj. EPS growth (%)	(11.0)	86.8	42.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Earnings call highlights

- **Higher realisation despite deeper discounts:** MSIL's Q2FY23 realisation increased despite deeper discounts (Rs 13.8k per vehicle vs. Rs 12.7k in Q1) as the price hikes taken in Q1 were fully reflected, contribution rose from high-end products such as 'Brezza', and low-end vehicles ('Alto') were phased out.
- **High pre-orders:** Pending customer orders totalled 0.41mn vehicles at Q2-end and include 0.13mn units of high-margin models such as 'Ertiga' and 'Baleno'. CNG (compressed natural gas) models pending booking were in the range of 0.14-0.15mn units.
- **Gross margin expands:** Per management, the Q2 gross margin was higher due to a mix of commodity softening, currency depreciation (USD vs. JPY) which aided Rs 1.6bn in forex gains, and better economies of scale.
- **Increase in other expenses:** MSIL attributed the rise in other expenses to higher royalty payments at ~Rs 1.5bn (3.8% vs. 3.5% of sales in Q1FY23) linked to volumes, higher spend on marketing expenses (Rs 1.5bn) and increased energy expenses due to geopolitical issues. Management expects marketing expenses to remain elevated to support new launches in the medium term.
- **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
- **Higher inventory stocking:** Inventory stocking increased in Q2 ahead of the festive season and due to uncertainty caused by the chip shortage. Management indicated that stocks will return to routine levels once the situation normalises.
- **Continued uncertainty over chip supply chain:** Though semiconductor chip supply is gradually picking up, it hasn't recovered fully and hence uncertainly persists. Per management, production of ~35k units was impacted in Q2 due to chip unavailability.
- **View on CNG penetration:** According to management, CNG penetration for MSIL was over 20% of vehicles sold in Q2. The lower pricing benefits the commercial vehicle (truck) segment more than passenger vehicles. Within the company's product portfolio, 'Ertiga' contributes two-third of CNG sale volumes followed by 'Wagon R'. CNG sales are directly linked to boot space, with buyers in this segment preferring vehicles with larger space.

Fig 1 – Quarterly performance (Standalone)

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Volume	517,395	379,541	36.3	467,931	10.6	985,326	733,155	34.4
Avg. Realisation per Vehicle	578,490	541,151	6.9	566,319	2.1	572,710	522,531	9.6
Net Revenues	**299,308**	**205,389**	**45.7**	**264,998**	**12.9**	**564,306**	**383,096**	**47.3**
Total Income (A)	299,308	205,389	45.7	264,998	12.9	564,306	383,096	47.3
Operating Expenses								
Raw materials consumed	218,801	155,770	40.5	197,702	10.7	416,503	288,675	44.3
Employee Expenses	11,327	9,622	17.7	11,584	(2.2)	22,911	20,265	13.1
Other Expenses	41,491	31,448	31.9	36,591	13.4	78,082	57,396	36.0
Total Expenditure (B)	271,619	196,840	38.0	245,877	10.5	517,496	366,336	41.3
EBITDA (A-B)	**27,689**	**8,549**	**223.9**	**19,121**	**44.8**	**46,810**	**16,760**	**179.3**
Other Income	6,125	5,227	17.2	885	592.1	7,010	10,305	(32.0)
Depreciation	7,226	7,561	(4.4)	6,514	10.9	13,740	14,993	(8.4)
EBIT	26,588	6,215	327.8	13,492	97.1	40,080	12,072	232.0
Finance Costs	305	225	35.6	274	11.3	579	447	29.5
PBT after exceptional items	26,283	5,990	338.8	13,218	98.8	39,501	11,625	239.8
Tax expense	5,668	1,237	358.2	3,090	83.4	8,758	2,464	255.4
Reported PAT	20,615	4,753	333.7	10,128	103.5	30,743	9,161	235.6
Adjusted PAT	**20,615**	**4,753**	**333.7**	**10,128**	**103.5**	**30,743**	**9,161**	**235.6**
Adj EPS (Rs)	68.3	15.7	333.7	33.5	103.5	101.8	30.3	235.6

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 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 assume coverage with a HOLD rating as the stock has rallied ~10% in the past one month and prices in the positives at current valuations of 28x FY24E EPS. We value MSIL at 30x FY24E EPS, in line with its long-term (10-year) average, for a TP of Rs 9,933.

Fig 2 – Key assumptions

Parameters	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

Key risks

Key upside risks to our estimates are:

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

Key downside risks are:

- Fierce competitive pressure arresting efforts to gain market share, and
- Unfavourable policy changes in passenger vehicle segment, impacting overall sentiment.

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	3.9	3.1	2.4	2.1	1.9
EV/EBITDA	51.9	48.5	26.6	19.5	16.4
Adjusted P/E	65.9	74.0	39.6	27.9	22.7
P/BV	5.3	5.2	4.7	4.2	3.7

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%

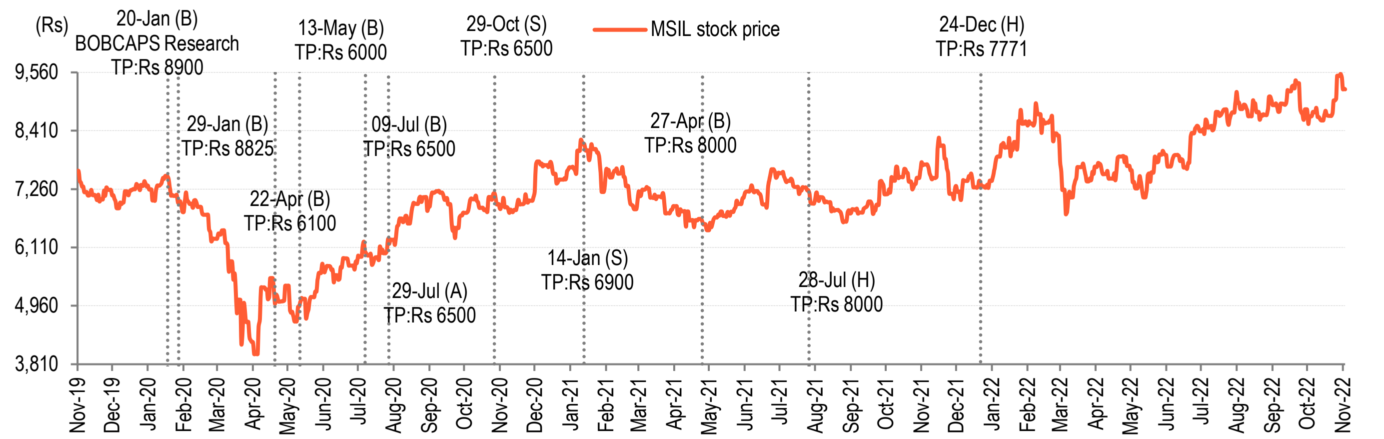
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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