

BUY
 TP: Rs 12,234 | ▲ 20%

MARUTI SUZUKI

| Automobiles

| 31 January 2024

Healthy all-round performance – raise to BUY

- Q3 volumes grew 8% YoY driven by continued demand surge for SUVs; we expect sustained outperformance
- Realisation gains (+7%), softening costs and higher volumes lifted EBITDA margin 200bps YoY to 11.7%
- Upgrade from HOLD to BUY on upbeat growth outlook; TP raised to Rs 12,234 (vs. Rs 11,562) on rollover

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Volumes and realisations increase: MSIL’s Q3FY24 revenue grew 15% YoY (-10% QoQ) to Rs 333bn, backed by 8% volume gains (-9% QoQ) and 7% realisation growth (-1% QoQ). Sales volume at 501.2k units was driven by increasing SUV demand (industry share at ~53% as on Q3). Average realisation per vehicle stood at Rs 664.6k stemming from a mix of price hikes (0.45%) and discounts (Rs 23.3k in Q3 vs Rs 17.7k in Q2).

Operating margin expands YoY: Raw material cost at 70.9% of sales dropped 175bps YoY (flat QoQ), aiding gross margin improvement of 175bps YoY (-30bps QoQ) to 29%. Higher sales volume, cost reduction efforts and favourable commodity prices helped EBITDA grow 38% YoY (-18% QoQ) to Rs 39bn, accompanied by margin expansion of 200bps YoY (-120bps QoQ) to 11.7%. PAT rose 33% YoY (-16% QoQ) to Rs 31.3bn.

Capacity expansion on track: MSIL’s manufacturing unit in Kharkhoda (Haryana) with a capacity of 0.25mn vehicles a year is due to become operational in CY25 and its Manesar plant expansion of 0.1mn units is scheduled to start by Mar’24. The acquisition of contract manufacturing partner SMG’s plant at Gujarat has received shareholder approval. The company has also signed an MoU with the Gujarat government for setting up a 1mn-unit plant in the state by FY29.

Estimates revised....: We raise our FY24 EPS estimate by 3% factoring in the healthy 9MFY24 show, while paring our FY25 forecast by 1% to capture the impact of limited capacities. We introduce FY26 projections for MSIL and model for a 3Y CAGR of 25%/23% in EBITDA/PAT. Our gross margin assumptions hover at ~29% with EBITDA margins of 12% over our forecast period.

...upgrade to BUY: Given an upbeat growth outlook backed by MSIL’s focus on premiumisation, healthy capex and thrust on EVs, we upgrade our HOLD rating to BUY. We continue to value the stock at 25x P/E, on par with its 10Y average, while rolling valuations over to FY26E. This yields a revised TP of Rs 12,234 (from Rs 11,562 earlier).

Key changes

Target	Rating
▲	▲

Ticker/Price	MSIL IN/Rs 10,187
Market cap	US\$ 37.4bn
Free float	44%
3M ADV	US\$ 68.8mn
52wk high/low	Rs 10,933/Rs 8,130
Promoter/FPI/DII	56%/23%/16%

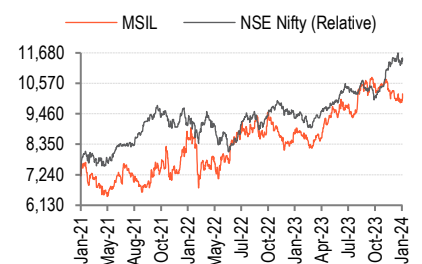
Source: NSE | Price as of 31 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	11,75,229	13,75,899	15,74,717
EBITDA (Rs mn)	1,10,077	1,63,693	1,88,997
Adj. net profit (Rs mn)	80,492	1,19,146	1,35,204
Adj. EPS (Rs)	266.5	394.4	447.6
Consensus EPS (Rs)	266.5	400.0	447.0
Adj. ROAE (%)	14.1	17.0	16.7
Adj. P/E (x)	38.2	25.8	22.8
EV/EBITDA (x)	27.6	18.8	16.4
Adj. EPS growth (%)	113.7	48.0	13.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY24	Q2FY24	Our view
Volumes	<p>Industry SUV volume share rose to ~53% in Q3FY24. 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 volumes grew 7.6% YoY. With good acceptance of all seven UVs, MSIL continues to be a market leader in the segment.</p>	<p>Industry SUV volume share rose to ~50% in Q2FY24 from 43% in FY23. UVs collectively form ~60% of the industry. CNG vehicles accounted for ~15% share and hybrid vehicles ~2% (1% a year ago).</p> <p>MSIL's sales volume grew 6.7% YoY and it maintained market leadership in hatchbacks, sedans, vans and MUVs, besides attaining leadership in SUVs (23.3% market share). PV volumes grew ~8%, beating the industry, with ~120bps market share gains.</p>	MSIL continues to focus on a favourable mix, rather than absolute growth. This helps it to maintain leadership and improve earnings quality.
Margins	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.	EBITDA margin has improved due to a softening of commodity prices (barring precious metals) in Q2FY24. A healthy mix inclined towards high-end products further aided margins.	An increasing share of high-end products combined with lower raw material cost will help MSIL retain gross/EBITDA margins despite competitive pressure.
Discounts	Discounts were ~Rs 23.3k per vehicle.	Discounts were ~Rs 17.7k per vehicle.	Despite higher discounts, realisations have improved.
Supply	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.	MSIL was able to avoid volume loss on account of semiconductor shortages after nearly eight quarters and management remains cautiously optimistic on semiconductor supplies for H2FY24.	With limited supply-side constraints in the near future, MSIL's only challenge will be to add capacities to maintain or expand its volume market share.
Order book	The pending order book as on Q3FY24 was ~0.2mn units.	The pending order book as on Q2FY24 was ~0.3mn units, largely comprising newly launched SUVs.	The order book remains healthy, aiding medium-term visibility.
Commodities	Steel prices increased marginally while other commodities (palladium, rodium and others) corrected in Q3. Management expects this trend to continue in Q4FY24.	Commodity price have softened, especially steel that forms 50% of MSIL's raw material cost. Management expects precious metal prices to ease as well but remains cautious on steel prices which have gone up recently.	The medium/long-term outlook on commodities indicates no major negative surprises.
Capacity	<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 with an annual capacity of 1mn units in the state to be operationalised by FY29.</p>	Management intends to increase current capacity to more than 4mn units by FY30. Acquisition of the SMG plant in Q2FY24 has raised capacity by ~0.8mn units, intended for BEV production.	MSIL's focus on the EV segment is a step in the right direction Capacity expansion is key for growth and is being addressed by the management.
Capex	Capex guidance for the proposed Gujarat plant is ~Rs 350bn.	Capex for FY24 is guided at ~Rs 80bn (~Rs 50bn in H2FY24), which includes Rs 31bn earmarked for the SMG plant.	Prudent capital allocation will be the key Capex is largely internally funded with no major pressure on the balance sheet.

Parameter	Q3FY24	Q2FY24	Our view
		Management has not finalised any capex budget for FY25.	
Exports	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).	Export volumes grew 9.7% YoY to ~69k units with revenue at Rs 43.4bn. MSIL continues to be the largest exporter of PVs and has commenced <i>Jimny</i> exports to Latin America, the Middle East and Africa.	Exports still form a relatively small proportion of the topline. Nevertheless, steady export demand and a focus on high-end products will aid revenue growth.
Electric vehicles	MSIL is on track to commence production of BEVs in CY24 and will also be catering to Japanese and European markets. Its first EV will be an SUV with a 550km range and battery capacity of 60kWh.	The company plans to transition to EVs by launching six new models by FY30.	MSIL has maintained its target of entering the EV segment by FY25 and has a long-term plan in place.
Other key points	The share of hatchbacks in the industry has 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 low income levels of segment buyers.	The share of hatchbacks has declined to 28% of MSIL's overall volumes as on Q2FY24 due to an increase in costs amid stricter regulation and the slow change in income levels of buyers in the segment.	The share of hatchbacks continues to decline. Any revival in this segment is linked to buyers' income growth.

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

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Volume (units)	501,207	465,911	7.6	552,055	(9.2)	1,551,292	1,451,237	6.9
Avg. Realisation per Vehicle (Rs)	664,570	623,387	6.6	671,348	(1.0)	662,014	588,980	12.4
Net Revenues	333,087	290,443	14.7	370,621	(10.1)	1,026,977	854,749	20.1
Total Income (A)	333,087	290,443	14.7	370,621	(10.1)	1,026,977	854,749	20.1
Operating Expenses:								
Raw materials consumed	236,176	211,058	11.9	261,690	(9.7)	733,183	627,561	16.8
Employee Expenses	13,386	12,010	11.5	13,127	2.0	41,122	34,921	17.8
Other Expenses	44,446	39,044	13.8	47,962	(7.3)	135,921	117,126	16.0
Total Expenditure (B)	294,008	262,112	12.2	322,779	(8.9)	910,226	779,608	16.8
EBITDA (A-B)	39,079	28,331	37.9	47,842	(18.3)	116,751	75,141	55.4
Other Income	9,330	8,608	8.4	8,436	10.6	27,778	15,618	77.9
Depreciation	7,517	7,101	5.9	7,941	(5.3)	22,933	20,841	10.0
EBIT	40,892	29,838	37.0	48,337	(15.4)	121,596	69,918	73.9
Finance Costs	354	296	19.6	351	0.9	1,170	875	33.7
PBT after excep items	40,538	29,542	37.2	47,986	(15.5)	120,426	69,043	74.4
Tax expense	9,238	6,029	53.2	10,821	(14.6)	27,110	14,787	83.3
Reported PAT	31,300	23,513	33.1	37,165	(15.8)	93,316	54,256	72.0
Adjusted PAT	31,300	23,513	33.1	37,165	(15.8)	93,316	54,256	72.0
Adj EPS (Rs)	103.6	77.9	33.1	123.1	(15.8)	309.0	179.7	72.0
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	29.1	27.3	176	29.4	(30)	28.6	26.6	203
EBITDA Margin	11.7	9.8	198	12.9	(118)	11.4	8.8	258
EBIT Margin	12.3	10.3	200	13.0	(77)	11.8	8.2	366
PBT Margin	12.2	10.2	200	12.9	(78)	11.7	8.1	365
Tax Rate	22.8	20.4	238	22.6	24	22.5	21.4	109
Adj PAT Margin	9.4	8.1	130	10.0	(63)	9.1	6.3	274

Source: Company, BOBCAPS Research

Valuation methodology

We increase our FY24 EPS estimate by 3% factoring in the healthy 9MFY24 performance, while paring our FY25 forecast by 1% to capture the impact of limited capacities. We now introduce FY26 projections for MSIL and model for a three-year EBITDA/PAT CAGR of 25%/23% in. Our gross margin assumptions hover at ~29% with EBITDA margins of 12% over FY23-FY26. MSIL retains a healthy return ratio profile of 17-18% (ROCE/ROE) over our forecast period.

Given an upbeat growth outlook backed by the company's focus on premiumisation, healthy capex and thrust on EVs, we upgrade our HOLD rating to BUY. We continue to value the stock at 25x P/E, on par with its 10-year average, while rolling valuations over to FY26E for a revised TP of Rs 12,234 (from Rs 11,562 earlier).

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,375,899	1,574,717	1,805,635	1,467,038	1,725,237	NA	(6.2)	(8.7)	NA
EBITDA	163,693	188,997	214,147	159,552	190,342	NA	2.6	(0.7)	NA
Adj PAT	119,146	135,204	150,779	116,030	137,290	NA	2.7	(1.5)	NA
Adj EPS (Rs)	394.4	447.6	499.1	384.1	455	NA	2.7	(1.5)	NA

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Volume (nos)	1,966,164	2,064,472	2,250,275	2,455,050
ASP (Rs)	597,727	666,465	699,789	735,478
Revenues (Rs mn)	1,175,229	1,375,899	1,574,717	1,805,635
EBITDA (Rs mn)	110,077	163,693	188,997	214,147
Operating margin (%)	9.4	11.9	12.0	11.9
Adjusted Net Profit (Rs mn)	80,492	119,146	135,204	150,779
Adjusted EPS (Rs)	266	394	448	499

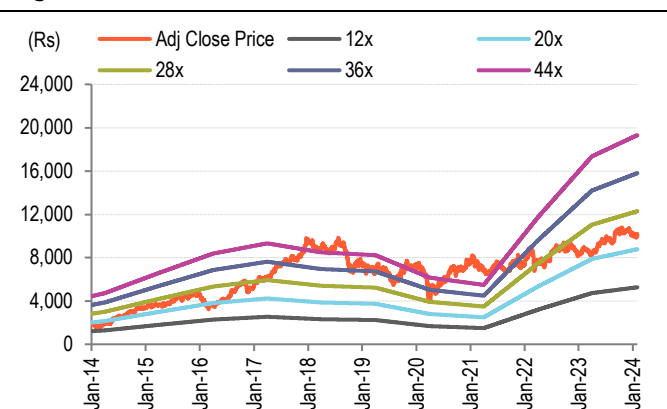
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Maruti Suzuki	MSIL IN	BUY	12,234	394.4	447.6	18.3	17.9
Mahindra & Mahindra	MM IN	BUY	1,849	78.2	92.1	19.4	19.0
Tata Motors	TTMT IN	NOT RATED	-	48.4	58.0	32.4	28.5

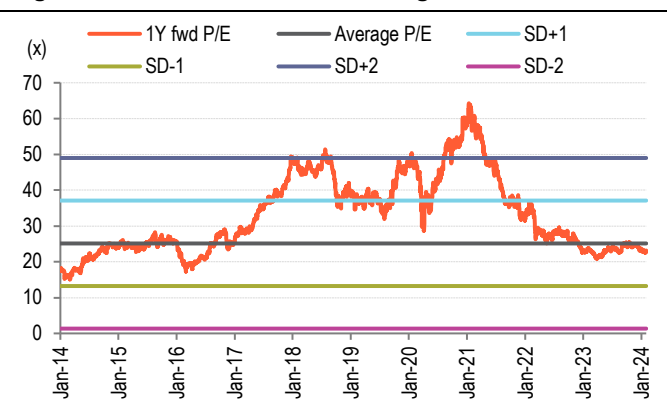
Source: BOBCAPS Research

Fig 6 – P/E band: MSIL has further 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 risks to our estimates are:

- commodity inflation rising and sustaining for longer 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	6.3	176	210	BUY
Bajaj Auto	BJAUT IN	27.0	7,668	6,272	SELL
Eicher Motors	EIM IN	12.8	3,840	3,601	HOLD
Escorts	ESCORTS IN	4.8	2,983	2,343	SELL
Mahindra & Mahindra	MM IN	25.1	1,652	1,849	BUY
Maruti Suzuki	MSIL IN	37.4	10,187	12,234	BUY
TVS Motor	TVSL IN	11.6	2,001	2,242	BUY
VST Tillers Tractors	VSTT IN	0.4	3,331	3,858	HOLD

Source: BOBCAPS Research, NSE | Price as of 31 Jan 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	8,82,956	11,75,229	13,75,899	15,74,717	18,05,635
EBITDA	57,012	1,10,077	1,63,693	1,88,997	2,14,147
Depreciation	27,866	28,233	32,358	37,158	43,682
EBIT	47,081	1,03,457	1,54,323	1,74,988	1,97,648
Net interest inc./(exp.)	(1,259)	(1,866)	(1,571)	(1,649)	(1,831)
Other inc./(exp.)	17,935	21,613	22,987	23,149	27,183
Exceptional items	0	0	0	0	0
EBT	45,822	1,01,591	1,52,752	1,73,339	1,95,817
Income taxes	8,160	21,099	33,605	38,135	45,038
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	37,662	80,492	1,19,146	1,35,204	1,50,779
Adjustments	0	0	0	0	0
Adjusted net profit	37,662	80,492	1,19,146	1,35,204	1,50,779

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	1,31,402	1,51,982	1,73,677	1,99,436	2,30,916
Other current liabilities	26,235	27,163	31,868	43,145	51,730
Provisions	9,446	10,500	3,007	3,308	3,638
Debt funds	26,000	38,322	40,226	42,224	30,980
Other liabilities	0	0	0	0	0
Equity capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	5,39,352	6,02,311	6,97,611	8,07,279	9,28,730
Shareholders' fund	5,40,862	6,03,821	6,99,121	8,08,789	9,30,240
Total liab. and equities	7,33,945	8,31,788	9,47,898	10,96,902	12,47,503
Cash and cash eq.	30,362	377	2,513	3,036	6,260
Accounts receivables	20,301	32,958	33,022	39,368	46,044
Inventories	35,331	42,838	55,036	62,989	73,128
Other current assets	60,518	55,324	63,135	69,100	76,930
Investments	4,07,633	4,77,564	5,55,564	6,31,564	7,27,564
Net fixed assets	1,40,076	1,78,938	1,96,580	2,29,422	2,45,741
CWIP	26,391	28,081	26,000	45,000	55,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	2,027	3,411	3,752	4,127	4,540
Other assets	11,304	12,296	12,296	12,296	12,296
Total assets	7,33,943	8,31,787	9,47,898	10,96,902	12,47,503

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	25,665	91,473	1,25,780	1,64,637	1,81,197
Capital expenditures	(29,865)	(68,785)	(47,919)	(89,000)	(70,000)
Change in investments	10,234	(69,931)	(78,000)	(76,000)	(96,000)
Other investing cash flows	17,935	21,613	22,987	23,149	27,183
Cash flow from investing	(1,696)	(1,17,103)	(1,02,932)	(1,41,851)	(1,38,817)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(629)	12,322	1,904	1,999	(11,245)
Interest expenses	(1,259)	(1,866)	(1,571)	(1,649)	(1,831)
Dividends paid	(13,594)	(18,125)	(24,166)	(27,791)	(31,682)
Other financing cash flows	(2,615)	(1,384)	(341)	(375)	(413)
Cash flow from financing	(18,097)	(9,053)	(24,174)	(27,816)	(45,170)
Chg in cash & cash eq.	5,872	(34,683)	(1,326)	(5,030)	(2,790)
Closing cash & cash eq.	30,362	377	2,513	3,036	6,260

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	124.7	266.5	394.4	447.6	499.1
Adjusted EPS	124.7	266.5	394.4	447.6	499.1
Dividend per share	45.0	60.0	80.0	92.0	104.9
Book value per share	1,790.5	1,998.9	2,314.4	2,677.4	3,079.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.5	2.6	2.2	2.0	1.7
EV/EBITDA	53.6	27.6	18.8	16.4	14.4
Adjusted P/E	81.7	38.2	25.8	22.8	20.4
P/BV	5.7	5.1	4.4	3.8	3.3

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	82.2	79.2	78.0	78.0	77.0
Interest burden (PBT/EBIT)	97.3	98.2	99.0	99.1	99.1
EBIT margin (EBIT/Revenue)	5.3	8.8	11.2	11.1	10.9
Asset turnover (Rev./Avg TA)	157.9	194.4	199.2	198.0	199.3
Leverage (Avg TA/Avg Equity)	1.0	1.1	1.1	1.1	1.0
Adjusted ROAE	7.1	14.1	18.3	17.9	17.3

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	25.5	33.1	17.1	14.5	14.7
EBITDA	6.7	93.1	48.7	15.5	13.3
Adjusted EPS	(11.0)	113.7	48.0	13.5	11.5
Profitability & Return ratios (%)					
EBITDA margin	6.5	9.4	11.9	12.0	11.9
EBIT margin	5.3	8.8	11.2	11.1	10.9
Adjusted profit margin	4.3	6.8	8.7	8.6	8.4
Adjusted ROAE	7.1	14.1	17.0	16.7	16.2
ROCE	6.8	13.5	17.3	17.0	16.6
Working capital days (days)					
Receivables	7	8	9	8	9
Inventory	14	12	13	14	14
Payables	64	60	61	61	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	0.7
Net interest coverage ratio	(37.4)	(55.4)	(98.2)	(106.1)	(107.9)
Adjusted debt/equity	0.0	0.1	0.1	0.1	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%

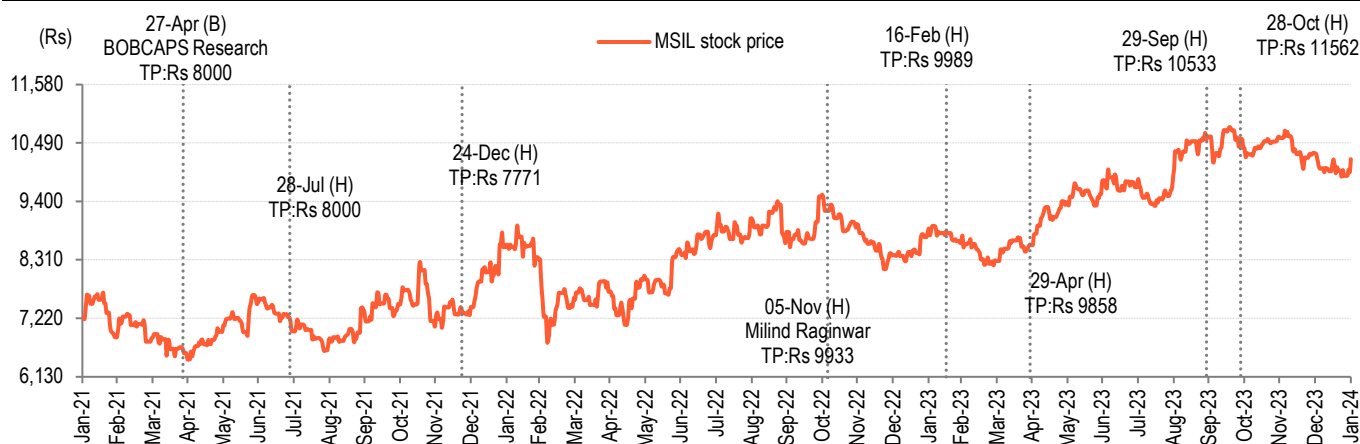
HOLD – Expected return from -6% to +15%

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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