

Strong Demand outlook

CMP: INR 9,717

Rating: Accumulate

Target Price: INR 11,117

Stock Info

BSE	532500
NSE	MARUTI
Bloomberg	MSIL IN
Reuters	MRTI.NS
Sector	Automobiles
Face Value (INR)	5
Equity Capital (INR mn)	1510
Mkt Cap (INR Mn)	296,6650
52w H/L (INR)	10,036 / 8076
Avg Yearly Vol (in 000')	511

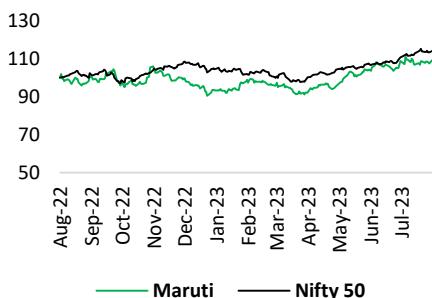
Shareholding Pattern %

(As on June, 2023)

Promoters	56.48
Public & Others	43.52

Stock Performance (%)	1m	3m	12m
Maruti Suzuki	0.32	14.3	11.9
Nifty 50	2.9	9.3	15.1

Maruti Vs Nifty 50



Maruti's revenue & PAT are above estimate due to a strong order book; Margin is slightly below estimate due to higher sales promotion expenses. The company plans SMG acquisition for production streamlining & supply chain efficiency (FY23 Book value at 127,550 Mn). Moving forward, the standalone business is set to improve with SMG's exclusion from other expenses and its recognition as a wholly-owned subsidiary, leading to enhanced margins and EPS, while further data is required for the consolidated performance. Standalone revenue stood at INR 3,23,269 Mn, against our estimate of INR 317,815 Mn registering a growth of 22% YoY/0.9% QoQ. EBITDA stood at INR 29,830 Mn, against our estimate of INR 31,220 Mn, Registering a growth of 56%YoY/(-11%QoQ).

Margin slightly below estimate led by higher sales promotion: On the margins front, EBITDA margin expansion by 201bps YoY/ -123bpsQoQ to 9.23%, slightly below our estimate of 9.8%. This was primarily driven by higher sales promotion expenses and an increase in employee costs led by a one-time payment of 80bps made by the company for retention-related purposes.

Better profitability led by good volumes: Standalone PAT saw a growth of +145.4%YoY/ (-5.3%QoQ) to INR 24,851 Mn above our estimate of INR 22,959 Mn. driven by higher sales volume, improved realization, cost reduction efforts, and increased non-operating income.

Strong demand outlook led by SUV Segment: The demand outlook is positive with the industry growing around 6.5% to 7% in Q1. However, Maruti outperformed with a growth of over 12%. The company is confident in its model lineup, particularly the recently launched SUVs, and expects the positive momentum to continue. The company expects the growth number of 2QFY24 to be relatively muted mainly due to the higher base last year.

Outlook and valuation

MSIL's order backlog of 355k units is substantial, but new SUV launches are expected to boost demand and market share. The planned acquisition of Suzuki Motors Gujarat (SMG) aims to enhance production efficiency, including EV manufacturing, without impacting profits. A healthy order book and a better portfolio mix will support the company's growth. Stable domestic PV growth and a favorable product lifecycle bode well for MSIL, with anticipated market share gains and margin recovery in FY24.

SMG, Expected completion by March 2024. On a brief basis on our calculations, we see an EPS cut of ~4% and RoCE reduction of 337bp (Transaction through equity) in FY25.

We value Maruti at 23x FY26E EPS of INR 482 for the revised target price of INR 11,117 per share. We downgrade our rating to Accumulate from Buy on the stock.

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY23	1,175,229	110,077	76,805	266.5	9.37	14.06	36.47
FY24E	1,353,811	148,102	98,664	347.5	10.94	16.78	27.96
FY25E	1,546,619	175,183	111,709	378.0	11.33	17.07	25.71
FY26E	1,752,311	207,305	146,006	483.3	11.83	22.81	20.10

Source: Arihant Research, Company Filings

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Q1FY24 Highlights from the Conference Call

SMG

The company plans to acquire SMG to streamline production and enhance supply chain efficiency. The transaction is scheduled for completion by March FY24, and the details regarding the type of acquisition will be deliberated in the upcoming board meeting. The book value for the last 3 yr has been ~INR 127,550 Mn, indicating that it would be the estimated latest book value for FY23.

- In Q1FY24, SMG's production accounted for 40% of the total production, ~2 lakhs units, with export revenue reaching around INR 37.6 cr.
- The EV manufacturing facility, a part of SMG, will be integrated into MSIL if the integration is successful.
- The battery project, a global initiative by Suzuki, is located in India due to the high volumes of Suzuki vehicles in the country and will be handled by Suzuki R&D India Limited, a 100% subsidiary of Suzuki Motor Corporation.
- The company plans CAPEX over four phases, setting up four parts initially and subsequently adding one mn capacity.
- **Demand outlook:** The demand outlook is positive with the industry growing around 6.5% to 7% in Q1. However, Maruti outperformed with a growth of over 12%. The company is confident in its model lineup, particularly the recently launched SUVs, and expects the positive momentum to continue. Company expects growth number of 2QFY24 to be relatively muted mainly due to higher base last year.
- **Domestic Market:** PV wholesale volumes up by 12.2%, outperformed the overall industry growth. The company obtained a MS of ~20% in the SUV segment, strengthened by a robust product portfolio. Secured a leading position in the price range of INR 10-20 lakh. Introduced Invicto, featuring a powerful hybrid powertrain, into the INR 20 lakh price segment. The service network reached over 4,500 touchpoints.
- **CNG:** CNG vehicle sales exceeded 113,000 units during the quarter, with CNG penetration reaching approximately 27%.
- **Exports:** The company expanded its export portfolio by introducing Fronx exports to Latin America, Middle East, and Africa. Maintaining its position as the largest exporter of Passenger Vehicles from India, the company exported approximately 63k units.
- **Pending orderbook:** 355k vehicle pending orderbook in Q1FY24 due to visibility on the availability of electronic components presents a significant challenge. Expect the improvement in supplies of electronic components.
- **Discount:** In Q1FY24, its INR 16,214 against 12,748 in Q1FY23. In December, Q3, discounts tend to be higher due to yr-end car clearance, but they will vary every quarter.
- **Inventory:** Inventory at INR125,000 and its above 4 week.
- **Commodity:** The company is seeing more stability in commodities and forex in FY24. Cost of precious metal like palladium and rhodium has gone down by ~20% while steel price saw some rise in 1QFY24. Company expects softening on steel going ahead.
- Royalty rate stood at 3.8%.
- First time buyer at 40% is marginally down from 42-44% previously.
- Retail sales at 3.8 lakhs in quarter.
- The EV launch is targeted for the upcoming financial year.

Exhibit 2: Q1FY24 result Snapshot

Standalone (INRm)	Q1FY24	Q4FY23	Q1FY23	YoY (%)	QoQ(%)
Net Sales	3,23,269	3,20,480	2,64,998	22.0	0.9
- Raw Material	2,35,317	2,34,874	197,702	19.0	0.2
(% of Net Sales)	72.8%	73.3%	74.6%	-2.4	-0.7
- Staff Expenditure	14,609	11,130	11,584	26.1	31.3
(% of Net Sales)	4.5%	3.5%	4.4%	3.4	30.1
- Other Expenditure	43,513	40,973	36,591	18.9	6.2
(% of Net Sales)	13.5%	12.8%	13.8%	-2.5	5.3
Total Expenditure	2,93,439	2,86,977	2,45,877	19.3	2.3
EBITDA	29,830	33,503	19,121.00	56.0	-11.0
EBITDA Margin (%)	9.23%	10.45%	7.22%	201bps	-123bps
Depreciation	7,475	7,392	6,514	14.8	1.1
EBIT	22,355	26,111	12,607	77.3	-14.4
EBIT Margin (%)	6.9%	8.1%	4.8%	216bps	-123bps
Interest	465	991	274	69.7	-53.1
Other Income	1,001.2	742.8	88.5	1,031.3	34.8
PBT	21,890	25,120	13,218	65.6	-12.9
Tax	705.1	631.2	309.0	128.2	11.7
Tax Rate (%)	22.1%	19.4%	23.4%	-128bps	271bps
Adjusted PAT	24,851	26,236	10,128	145.4	-5.3
Exceptional Items	-	-	-		
Reported PAT	24,851	26,236	10,128	145.4	-5.3
Reported EPS (INR)	82.27	86.85	33.53	145.4	-5.3
Volumes (In Nos)	4,98,030	5,14,927	4,67,931	6.4	-3.3
Net Realisation (INR)	6,49,095	6,22,379	5,66,319	14.6	4.3
EBITDA / Vehicle (INR)	59,896	65,064	40,863	46.6	-7.9

Volumes (In Nos)	Q1FY24	Q4FY23	Q1FY23	YoY (%)	QoQ (%)
Domestic	4,34,812	4,50,208	3,96,332	9.7	(3.4)
A: Mini	40,400	58,903	48,987	(17.5)	(31.4)
A: Compact + Super compact	2,10,825	2,25,570	2,04,877	2.9	(6.5)
A: Mid-Size + Exec	3,753	2,092	2,672	40.5	79.4
Total cars	2,54,978	2,86,565	2,56,536	(0.6)	(11.0)
B: UVs	1,26,401	1,05,957	80,852	56.3	19.3
C: Vans	53,433	57,686	58,944	(9.3)	(7.4)
Export	63,218	64,719	62,624	0.9	(2.3)
Total Volumes	4,98,030	5,14,927	4,58,956	8.5	(3.3)

Source: Arianth Research, Company Filings,

Exhibit 3: Margin slightly decreased due to higher sales promotion expenses.

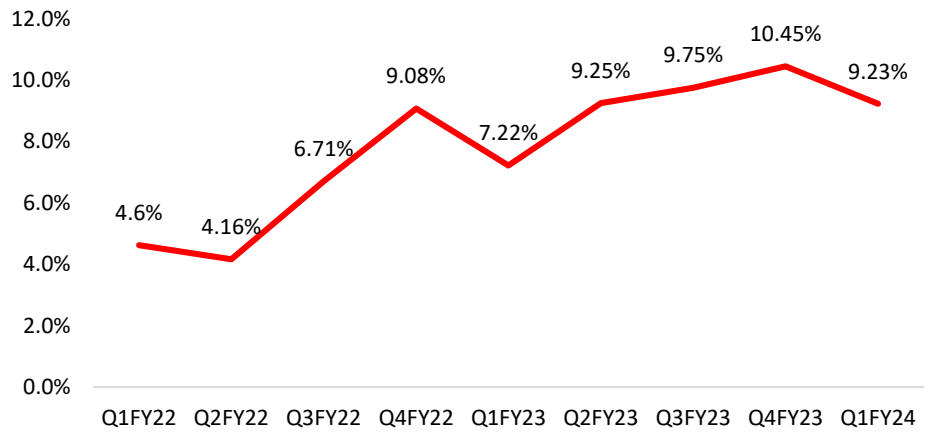


Exhibit 4: Relatively better sales volume YoY basis leading to improved capacity utilization.

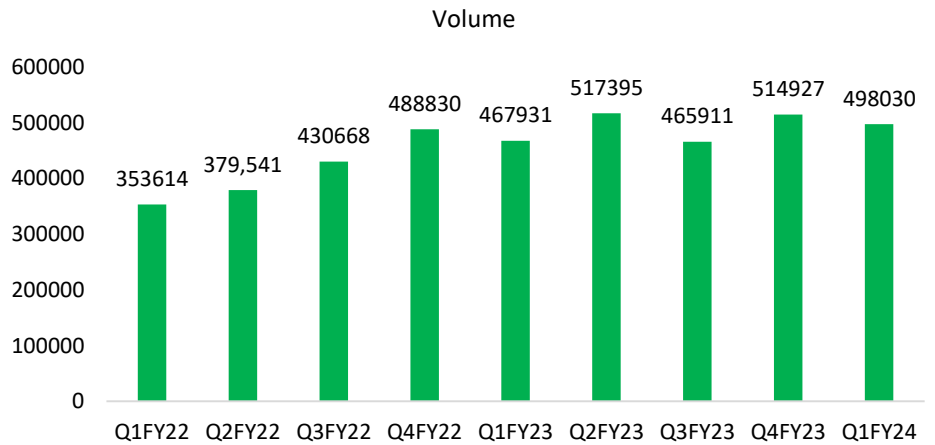
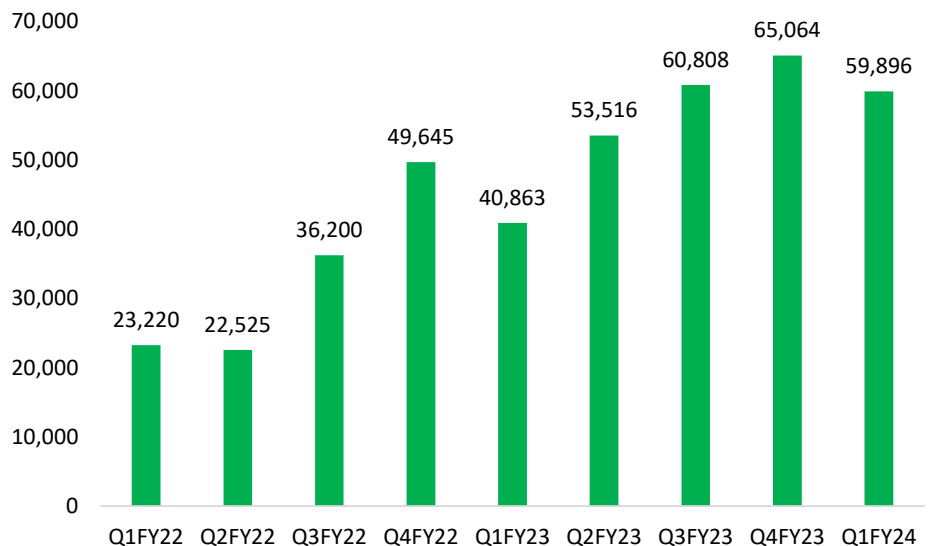


Exhibit 5: The company EBITDA/Vehicle showing uptrend YoY basis in Q1FY24 due to higher capacity utilization and better realization



Source: Arianth Research, Company Filings,

Profit & Loss Statement (Standalone)					Balance Sheet (Standalone)				
Particulars (INR mn)	FY23	FY24E	FY25E	FY26E	Particulars (INR mn)	FY23	FY24E	FY25E	FY26E
Net sales	1,175,229	1,353,811	1,546,619	1,752,311	Cash & bank	376	45,620	56,632	56,633
Growth, %	34	16	17	13	Marketable securities cost	462,292	472,292	492,292	512,292
RM expenses	-862,435	-913,822	-1,026,128	-1,160,030	Debtors	32,958	37,606	43,852	53,543
Employee expenses	-46,051	-52,959	-61,432	-70,647	Inventory	42,838	45,390	50,969	57,620
Other expenses	-156,666	-238,928	-283,876	-314,330	Loans & advances	299	305	311	317
EBITDA (Core)	110,077	148,102	175,183	207,305	Other current assets	23,399	23,399	23,399	23,399
Growth, %	93	35	18	18	Total current assets	99,870	152,320	175,162	191,512
Margin, %	9.4	10.9	11.3	11.8	Investments	15,272	15,272	15,272	15,272
Depreciation	-28,233	-36,289	-45,364	-51,069	Gross fixed assets	577,902	665,678	737,902	825,678
EBIT	81,844	111,813	129,819	156,236	Less: Depreciation	-379,223	-415,061	-460,930	-511,494
Growth, %	181	37	16	20	Add: Capital WIP	28,081	28,081	28,081	28,081
Margin, %	7.0	8.3	8.4	8.9	Net fixed assets	198,679	250,617	276,972	314,184
Interest paid	-1,866	-2,536	-2,479	-2,424	Total assets	844,115	897,644	978,451	888,900
Other Income	21,613	24,855	28,583	32,871	Current liabilities	179,211	206,749	227,434	254,664
	1.84	1.84	1.85	1.88					
Non-recurring Items	(9)	(0)	1	2	Provisions	9,624	9,624	9,624	9,624
Pre-tax profit	101,591	134,131	155,923	186,682	Total current liabilities	188,835	216,373	237,058	264,288
Tax provided	-21,099	-29,509	-41,352	-41,070	Non-current liabilities	31,158	30,343	30,638	30,638
Profit after tax	80,492	104,622	114,572	145,612	Total liabilities	219,993	246,715	267,696	294,927
Others (Minorities, Associates)	-	-	-	-					
Net Profit	80,492	104,622	114,572	145,612	Paid-up capital	1,510	1,510	1,510	1,510
Growth, %	114	30	10	27	Reserves & surplus	610,455	637,260	697,087	580,305
					Shareholders' equity	611,965	638,770	698,597	581,815
Net Profit (adjusted)	80,492	104,622	114,572	145,612	Total equity & liabilities	844,115	897,644	978,451	888,900

Cash Flow (Standalone)					Ratios (Standalone)				
Particulars (INR mn)	FY23	FY24E	FY25E	FY26E	Particulars (INR mn)	FY23	FY24E	FY25E	FY26E
Pre-tax profit	103,231	134,582	187,457	187,187	EPS (INR)	266.5	346.3	379.3	482.0
Depreciation	28,233	35,838	45,869	50,564	PE (x)	36.5	28.1	25.6	20.2
Chg in working capital	-239	20,332	8,855	10,882	Price/Book (x)	4.8	4.6	4.2	5.0
Total tax paid	-22,475	-29,608	-41,241	-41,181	EV/EBITDA (x)	22.6	16.4	13.7	11.5
CFO	89,007	138,826	174,836	177,006	EV/Net sales (x)	2.1	1.8	1.6	1.4
Capital expenditure	-63,914	-87,776	-72,224	-87,777	RoE (%)	14	17	17.1	22.7
Chg in investments	-29,931	30,000	20,000	20,000	RoCE (%)	17	20	22	28
CFI	-112,232	-72,921	-63,641	-74,906	Dividend Yield (%)	1.9	2.5	3.5	8.5
Free cash flow	-14,907	11,050	62,612	49,229	Receivable (days)	11	11	10	11
Dividend (incl. tax)	-59,725	-77,630	-108,785	-262,393	Payable (days)	40	38	38	39
CFF	-53,256	-80,166	-111,264	-264,817	Revenue Growth (%)	34	16	17	13
Net chg in cash	(76,481)	(14,262)	(69)	(162,718)	EBIDTA Growth (%)	93	35	18	18
Opening cash balance	30,362	376	56,632	56,633	EPS Growth, %	97	21	2	27
Closing cash balance	376	45,620	56,632	56,633	Net D/E ratio (x)	(0.7)	(0.8)	(0.8)	(1.0)

Source: Arihant Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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