

New Product launch will be key focus

CMP: INR 8,699

Rating: Buy

Target Price: INR 10,747

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 cr)	2,63,1660
52w H/L (INR)	9769 / 6536
Avg Yearly Vol (in 000')	725

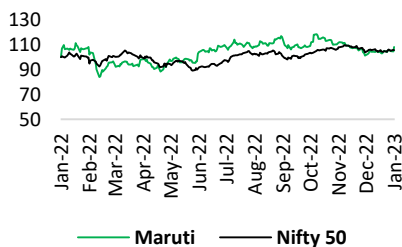
Shareholding Pattern %

(As on Dec, 2022)

Promoters	56.37
Public & Others	30.62

Stock Performance (%)	1m	3m	12m
Maruti Suzuki	6.8	-0.7	8.0
Nifty 50	1.2	5.0	-0.39

Maruti Vs Nifty 50



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Maruti revenue above our estimates: Standalone revenue stood at INR 299,308 Mn, above our estimate of INR 274,115 Mn registering a growth 24.9% YoY/ -3% QoQ. The supply situation of electronic components continue to remain unpredictable. The company sold a total of 465,900 vehicles during the quarter. Sales in the domestic market is 403,929 units and exports was 61,982 units. This was against total sales of 430,658 units comprising 365,673 units in domestic and 64,995 units in export markets in the Q3FY23. In Q3FY23, the company registered net sales of INR 278,492 mn during the Q3FY22, the net sales were at INR 221,876 mn.

Margin expansion led by stable RM environment: EBITDA stood at INR 28,331 Mn, above our estimate of INR 27,408 Mn, Registering a growth of 82%YoY/ 2%QoQ. On the margins front, EBITDA margin expansion by 305bps YoY/ 50bpsQoQ to 9.75%, against our estimate of 10% led by favorable foreign exchange variation, Cost reduction efforts and Softening of commodity prices.

Maruti Product mix improvement leads to ASP improvement: ASP growth of ~8% QoQ was on the back of price hikes and an improved product mix. The company highlighted that ASP for SUVs is ~2.5-3x more than the Passenger Car segment. Going forward, with multiple launches planned under the SUV category, ASP will continue to increase in the near term.

Market share gains on the back of new model launch: We expect, the company to regain a part of its lost market share, led by the new model launches. Over the last 6 month, the company has launched four new models. We expect at least one more product launch over the next 12 months. New models currently account for 119k pending orders of Maruti.

Outlook and valuation

Maruti delivered a strong performance in Q3FY23 as it was above our estimates. Gross Margin improved led by a better product mix, likely to ease production, a price hike, and a stable RM environment would support MSIL's margin expansion, going forward. In addition, the full impact of softening commodity cost benefit on margins would get reflected on P&L from Q4FY23E onwards. Maruti launched two new SUVs, Jimny and FRONX with this, the company is aiming for leadership in the SUV segment. The healthy order book and commodity/forex gain tailwinds will further support strong performance. **We value Maruti at 22x FY25E EPS of INR 488.5 for the revised target price of INR 10,747 per share (The previous target price was INR 10,872 per share). We upgrade our rating to Buy from Accumulate earlier.**

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY22	882,956	57,012	37,663	124.7	6.46	7.25	69.77
FY23E	1,082,554	105,439	76,805	245.0	9.74	13.44	35.51
FY24E	1,266,919	136,547	98,664	374.7	10.78	16.26	23.22
FY25E	1,427,268	162,826	111,709	488.5	11.41	16.99	17.81

Source: Arihant Research, Company Filings

Q3FY23 Highlights from the Conference Call

- **New launch:** The company launched two new SUVs, Jimny and FRONX in the Auto Expo 2023. With this, the company is aiming for leadership in SUV segment. The Jimny powered by Suzuki's all grip pro four-wheel drive technology carries the 50 years strong heritage of Suzuki's off-road progress.
- **Concept eVX** is a mid-size electric SUV concept designed and developed by Suzuki Motor Corporation in Japan. The concept electric SUV eVX will be powered by a 60-kilowatt battery pack offering up to 550-kilometer of driving range. The company plans to bring it to market by 2025. The company's approach with electric vehicles is holistic with scale and localization. Earlier in March, Suzuki announced investment of INR100 bn in Gujarat towards production of EVs and their batteries.
- **Demand scenario:** Urban rural mix is all same urban rural continues to be strong at about 44%- 45% and the company is happy with the bookings. Also the Germany and the France and next year industry has not come out with a number. looking at ahead will be sometime next week. But what the company is thinking is that should grow faster than industry.
- **Semiconductor shortage:** The supply shortage of electronic components has marginally increase in comparison with Q2FY23. The company could not produce about 46K vehicles in Q3FY23 with the limited visibility or availability of electronic components is a challenge in planning production. The electronic component shortage are still limiting production volumes.
- **Exports:** The company reported highest-ever export sales of 263k units in CY22. MSIL also commenced exports of its premium SUV Grand Vitara with plans to export to 60+ countries in LATM, Africa, the Middle East and ASEAN nations. However, going forward, exports will face supply constrains in the coming months.
- **Discount:** The company discount in Q3FY23 of INR 18,291 vs INR 13,840.
- **Average ASP** seems to have shot up by 8.5%. There was some bit of a push in SUVs. SUV category share went up for overall volume.
- **Government's clean and green initiative:** The company unveiled India's first mass segment flex fuel prototype car. The flex fuel vehicle is designed to run on any ethanol petrol blend between 20% and 85% fuel. The company research shows that ethanol fuel based Wagon R flex fuel prototype vehicle or bidding on E85 fuel has reduce GHG emissions by 79% in comparison to a conventional gasoline powered Wagonor car.
- **CNG outlook:** Management remains cautious about higher CNG prices hampering mix in the near term. Higher CNG prices affected CV sales across industry
- **Regulatory impact:** Safety-related features such as the six airbag rule, 3-point seatbelt and seatbelt reminder will lead to an increase in car prices by INR 20k. However, SIAM is in discussion with industry leaders on lead time for implementation.
- **Inventory:** In Q3FY23, the company could maximize the retail sales as a result, the company has about 5 days of network stock at the end of quality FY23. Ending customer orders stood at about 363,000 vehicles at the end of this quarter, out of which about 119,000 orders were for recently launched models.
- **Hatchback:** There has been positive growth and hatchback volumes with a 3% penetration. The company want more people from the 95%, 97% club to come into the 3% Club.
- **Royalty** was about 3.9% because the mix of slightly the newer models and retail 4.8 lakh units in the quarter in the domestic market.
- **Pending bookings:** Pending customer orders in 3QFY23 stood at 363k units, of which 119k units pertained to the recently launched models. MSIL reported record dispatches through railways in CY22 at 3.2+ lakh units.

Exhibit 2: Q3FY23 result Snapshot

Standalone (INRm)	Q3FY23	Q2FY23	Q3FY22	YoY (%)	QoQ(%)
Net Sales	290,443	299,308	232,460.0	24.9	-3.0
- Raw Material	211,058	218,801	175031	20.6	-3.5
(% of Net Sales)	72.7%	73.1%	75.3%	-3.5	-0.6
- Staff Expenditure	12,010	11,327	9699	23.8	6.0
(% of Net Sales)	4.1%	3.8%	4.2%	-0.9	9.3
- Other Expenditure	39,044	41,491	32140	21.5	-5.9
(% of Net Sales)	13.4%	13.9%	13.8%	-2.8	-3.0
Total Expenditure	262,112	271,619	216,870	20.9	-3.5
EBITDA	28,331	27,689	15,590	81.7	2.3
EBITDA Margin (%)	9.75%	9.25%	6.71%	305bps	50bps
Depreciation	7101	7226	6400	11.0	-1.7
EBIT	21,230	20,463	9,190	131.0	3.7
EBIT Margin (%)	7.3%	6.8%	4.0%	336bps	47bps
Interest	296	305	252	17.5	-3.0
Other Income	8608	6125	3280	162.4	40.5
PBT	20,934	20,158	12,218	71.3	3.8
Tax	6029	5668	2105	186.4	6.4
Tax Rate (%)	20.4%	21.6%	17.2%	318bps	-116bps
Adjusted PAT	23,513	20,615	10,113	132.5	14.1
Exceptional Items	-	-	-		
Reported PAT	23,513	20,615	10,113	132.5	14.1
Reported EPS (INR)	77.84	68.24	33.48	132.5	14.1
Volumes (In Nos)	465,911	517,395	430,668	8.2	-10.0
Net Realisation (INR)	623,387	578,490	539,766	15.5	7.8
EBITDA / Vehicle (INR)	60,808	53,516	36,200	68.0	13.6

Source: Arian Research, Company Filings,

Volumes (In Nos)	Q3FY23	Q2FY23	Q3FY22	YoY (%)	QoQ (%)
Domestic	403,929	454,200	365,673	10.5	(11.1)
A: Mini	52,952	72,069	55,624	(4.8)	(26.5)
A: Compact + Super compact	204,031	228,551	175,054	16.6	(10.7)
A: Mid-Size + Exec	4,592	4,254	3,362	36.6	7.9
Total cars	261,575	304,874	234,040	11.8	(14.2)
B: UVs	96,542	82,778	78,637	22.8	16.6
C: Vans	45,812	66,548	52,996	(13.6)	(31.2)
Export	61,982	63,195	64,995	(4.6)	(1.9)
Total Volumes	465,911	517,395	430,668	8.2	(10.0)

Source: Arian Research, Company Filings,

Exhibit 3: Margin Increased due to softening in commodity price and favorable foreign exchange variation

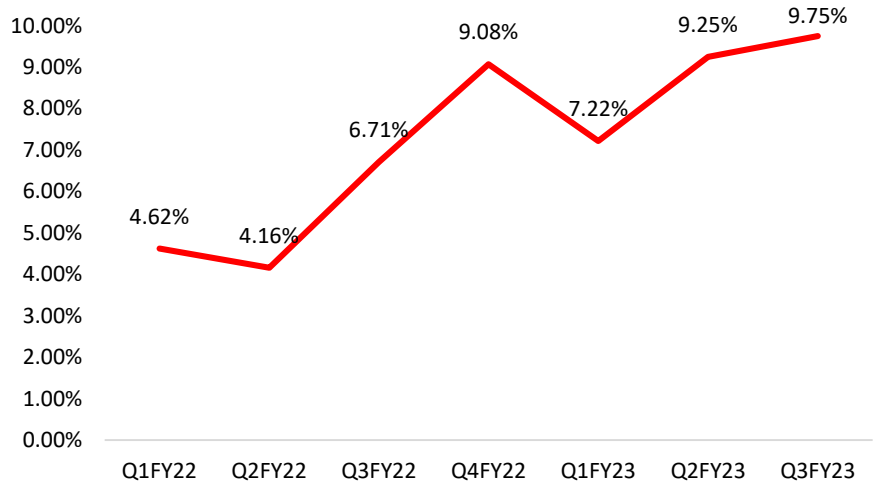


Exhibit 4: Relatively better sales volume leading to improved capacity utilization.

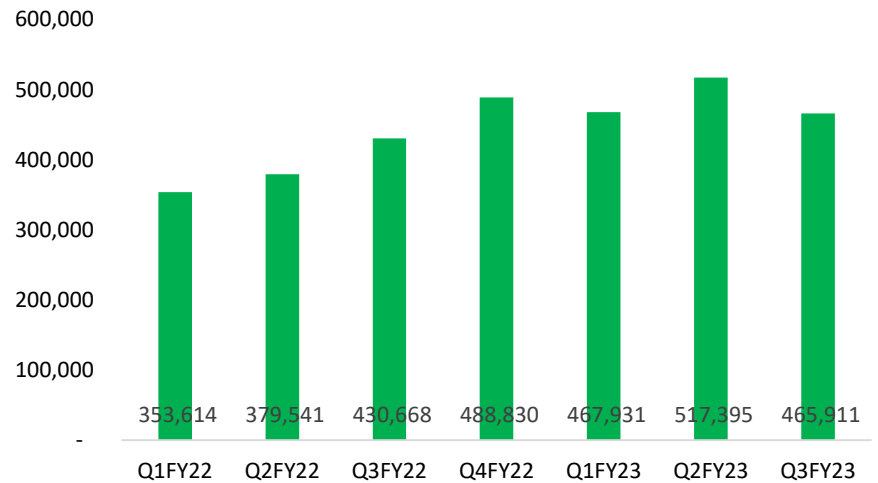
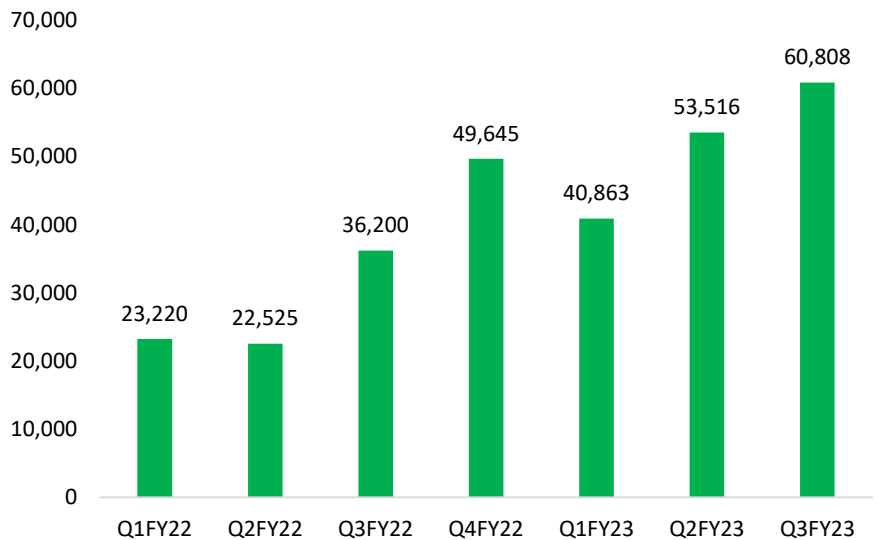


Exhibit 5: The company EBITDA/Vehicle showing uptrend in Q3FY23 due to higher capacity utilization and better realization



Source: Arianth Research, Company Filings,

Profit & Loss Statement (Standalone)				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
Net sales	882,956	1,082,554	1,266,919	1,427,268
Growth, %	26	24	18	15
RM expenses	-660,373	-756,164	-858,971	-958,341
Employee expenses	-40,222	-46,255	-48,568	-50,996
Other expenses	-125,349	-174,696	-222,832	-255,104
EBITDA (Core)	57,012	105,439	136,547	162,826
Growth, %	7	85	30	19
Margin, %	6.5	9.7	10.8	11.4
Depreciation	-27,865	-33,041	-36,774	-41,441
EBIT	29,147	72,398	99,773	121,386
Growth, %	26	148	38	22
Margin, %	3.3	6.7	7.9	8.5
Interest paid	-1,259	-1,440	-1,984	-2,750
Other Income	17,935	18,832	19,114	19,401
	2.03	1.74	1.51	1.36
Non-recurring Items	0	0	0	0
Pre-tax profit	45,823	89,790	116,904	138,037
Tax provided	-8,160	-16,162	-22,212	-33,001
Profit after tax	37,663	73,628	94,692	105,036
Others (Minorities, Associates)	-	-	-	-
Net Profit	37,663	73,628	94,692	105,036
Growth, %	(11)	95	29	11
Net Profit (adjusted)	37,663	73,628	94,692	105,036

Balance Sheet (Standalone)				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
Cash & bank	30,362	30,120	45,620	56,632
Marketable securities cost	392,361	412,361	432,361	452,361
Debtors	20,301	24,890	21,115	28,277
Inventory	35,331	40,456	45,956	51,273
Loans & advances	307	313	319	326
Other current assets	20,049	20,049	20,049	20,049
Total current assets	106,350	115,828	133,060	156,556
Investments	15,272	15,272	15,272	15,272
Gross fixed assets	515,678	585,678	647,902	725,678
Less: Depreciation	-350,990	-383,564	-420,805	-461,779
Add: Capital WIP	26,391	26,391	26,391	26,391
Net fixed assets	164,688	202,114	227,098	263,899
Total assets	731,985	798,889	861,104	941,402
Current liabilities	157,705	192,087	230,873	254,818
Provisions	7,863	7,863	7,863	7,863
Total current liabilities	165,568	199,950	238,736	262,681
Non-current liabilities	29,534	27,120	26,305	26,600
Total liabilities	195,102	227,070	265,041	289,281
Paid-up capital	1,510	1,510	1,510	1,510
Reserves & surplus	531,554	566,490	590,734	646,792
Shareholders' equity	533,064	568,000	592,244	648,302
Total equity & liabilities	731,985	798,889	861,104	941,402

Source: Arianth Research, Company Filings

Cash Flow (Standalone)				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
Pre-tax profit	45,823	90,257	116,437	165,471
Depreciation	27,865	32,574	37,241	40,974
Chg in working capital	3,702	24,662	37,054	11,460
Total tax paid	-14,301	-16,246	-22,123	-33,094
CFO	46,413	123,145	151,479	168,161
Capital expenditure	-48,916	-77,776	-62,224	-77,776
Chg in investments	50,234	20,000	20,000	20,000
CFI	-20,747	-78,944	-63,110	-78,375
Free cash flow	-42,503	5,369	49,255	50,385
Dividend (incl. tax)	-19,999	-54,632	-70,262	-97,947
CFF	-22,327	-56,071	-72,245	-100,697
Net chg in cash	3,339	(11,871)	16,124	(10,911)
Opening cash balance	30,364	30,362	30,120	56,632
Closing cash balance	30,362	30,120	45,620	56,632

Ratios (Standalone)				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
EPS (INR)	124.7	243.7	376.2	486.8
PE (x)	69.8	35.7	23.1	17.9
Price/Book (x)	4.9	4.6	3.7	2.9
EV/EBITDA (x)	38.7	20.8	12.6	8.4
EV/Net sales (x)	2.5	2.0	1.4	1.0
RoE (%)	7	13	16	16.9
RoCE (%)	9	16	19	22
Dividend Yield (%)	0.6	2.0	3.0	4.9
Receivable (days)	9	9	6	7
Payable (days)	43	42	41	41
Revenue Growth (%)	26	24	18	15
EBIDTA Growth (%)	7	85	30	19
EPS Growth, %	(11)	80	43	21
Net D/E ratio (x)	(0.8)	(0.8)	(0.8)	(0.8)

Source: Arian 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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