

1 August 2023

India | Equity Research | Q1FY24 result review

## Maruti Suzuki

Automotives

### Operationally stable quarter; entering festive season now

Maruti Suzuki (MSIL) has reported EBITDAM of 9.2%, down 130bps QoQ, despite 50bps QoQ improvement in GM, as 80bps non-recurring expenses under staff cost impacted margins in Q1FY24. ASP was up 4% QoQ to INR 650k/unit with blended discount being up ~INR 3k/unit QoQ. EBITDA came in at ~INR 30bn vs consensus estimate at INR 32.5bn. MSIL is planning to acquire SMG, with valuation being equal to the net residual book value. Gross block of MSIL would get enhanced by ~INR 130bn as against the enhancement in EBITDAM by ~150bps (4% depreciation/sales for SMG going away from P/L of MSIL wrt ~40% of production). We maintain **ADD** rating on MSIL, largely keeping our estimates unchanged and revising up our DCF-based target price to INR 10,923 (from INR 10,329), implying 24x FY25E core earnings.

### Key takeaways from conference call and our views

- Gross margin improved slightly by 50bps QoQ on account of better mix and steady input commodity/forex environment, despite ~INR 3k/unit higher discounts QoQ (~INR 16k/unit). Led by a decline in volume QoQ, expenses on marketing campaigns wrt IPL and new launch expenses related to Jimny/Fronx, other expenses were up 70bps QoQ. Additionally, pay-out of annual retention bonuses resulted in annual expenditure getting clubbed in a quarter, impacting margin by ~80bps. Though palladium, rhodium prices have declined by ~20% in the past few months, steel cost has increased during the same period, and thus, MSIL is looking ahead for a stable input material cost environment in the near future, with forex movements, too, being easily managed without hurting margins. Royalty rate remained steady at 3.8% of revenue. With MSIL planning to buyout SMG (though we are not factoring it in our estimates currently), we believe positive impact on EBITDA margin for MSIL would be ~150-180bps, though it would remain PAT neutral and add to the gross block of MSIL by ~INR 130bn.

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#### Market Data

Market Cap (INR)	2,967bn
Market Cap (USD)	36,095mn
Bloomberg Code	MSIL IN
Reuters Code	MRTI.BO
52-week Range (INR)	10,037 / 8,076
Free Float (%)	44.0
ADTV-3M (mn) (USD)	53

Price Performance (%)	3m	6m	12m
Absolute	14.3	10.4	12.7
Relative to Sensex	9.6	12.7	17.0

ESG Disclosure	2021	2022	Change
ESG score	64.7	64.7	0.0
Environment	69.4	69.4	0.0
Social	39.6	39.6	0.0
Governance	84.9	84.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	0.0	0.0
EBITDA	0.0	1.8
EPS	0.0	1.9

#### Previous Reports

27-04-2023: [Q4FY23 results review](#)

25-01-2023: [Q3FY23 results review](#)

### Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	8,82,956	11,75,229	14,23,875	16,29,454
EBITDA	57,012	1,10,077	1,62,059	1,88,716
EBITDA %	6.5	9.4	11.4	11.6
Net Profit	37,663	80,492	1,14,435	1,37,131
EPS (INR)	124.7	266.5	378.8	454.0
EPS % Chg YoY	(11.0)	113.7	42.2	19.8
P/E (x)	78.8	36.9	25.9	21.6
EV/EBITDA (x)	44.4	22.7	14.8	12.2
RoCE (%)	4.4	10.8	13.9	14.3
RoE (%)	7.1	14.1	17.8	18.8

- In terms of demand, MSIL is confident of improving demand trajectory in coming months on the back of newly-launched SUVs and upcoming festive season. Dealer inventory stood at ~30day levels or 125k units and can be enhanced to ~40days in the next three months, in order to absorb festive season demand in Sep-Nov'23. In Q1 as against ex-MSIL domestic PV market growth of ~7%, MSIL growth was 12% and management is confident of continuing with industry-beating growth execution ahead. Fronx with orderbook of ~22k units is retailing at ~9k units a month and exports have just begun for the brand. Overall orderbook of MSIL stands at 355k units with SUV contributing ~50% (Brezza at 48k units, Ertiga at 98k units, Invicto at 8k units, Fronx at 22k units). Thus, with EVs set to come from FY25 along with rising mix of SUVs, we expect MSIL's blended domestic ASP growth to remain robust at ~7% CAGR in FY23-25E. Domestic retail PV volume of MSIL was up 8% YoY at 380k units. With revival in replacement demand post covid normalising gradually in the past 12 months, first time buyer mix has come down to ~40% by ~200bps with replacement buyers returning to market.

**Exhibit 1: Q1FY24 result review**

Standalone (INR mn)	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
<b>Operating income</b>	<b>3,23,269</b>	<b>2,64,998</b>	<b>22%</b>	<b>3,20,480</b>	<b>1%</b>
Raw Material Costs	2,35,317	1,97,702	19%	2,34,874	0%
As % of sales	72.8%	74.6%	-181 bps	73.3%	-50 bps
<b>Gross profit</b>	<b>87,952</b>	<b>67,296</b>	<b>31%</b>	<b>85,606</b>	<b>3%</b>
<b>Gross margin</b>	<b>27.2%</b>	<b>25.4%</b>	<b>181 bps</b>	<b>26.7%</b>	<b>50 bps</b>
Employees Cost	14,609	11,584	26%	11,130	31%
As % of sales	4.5%	4.4%	15 bps	3.5%	105 bps
Other expenditure	43,513	36,591	19%	40,973	6%
As % of sales	13.5%	13.8%	-35 bps	12.8%	68 bps
<b>EBITDA</b>	<b>29,830</b>	<b>19,121</b>	<b>56%</b>	<b>33,503</b>	<b>-11%</b>
<b>EBITDA margin</b>	<b>9.2%</b>	<b>7.2%</b>	<b>201 bps</b>	<b>10.5%</b>	<b>-123 bps</b>
Depreciation & amortisation	7,475	6,514	15%	7,392	1%
<b>EBIT</b>	<b>22,355</b>	<b>12,607</b>	<b>77%</b>	<b>26,111</b>	<b>-14%</b>
<b>EBIT margin</b>	<b>6.9%</b>	<b>4.8%</b>	<b>216 bps</b>	<b>8.1%</b>	<b>-123 bps</b>
Other Income (net)	10,012	885	1031%	7,428	35%
Interest	465	274	70%	991	-53%
<b>PBT (before EO)</b>	<b>31,902</b>	<b>13,218</b>	<b>141%</b>	<b>32,548</b>	<b>-2%</b>
<b>PBT margin</b>	<b>9.9%</b>	<b>5.0%</b>	<b>488 bps</b>	<b>10.2%</b>	<b>-29 bps</b>
Tax expense	7,051	3,090	128%	6,312	12%
Effective tax rate	22.1%	23.4%	-128 bps	19.4%	271 bps
<b>Adjusted PAT</b>	<b>24,851</b>	<b>10,128</b>	<b>145%</b>	<b>26,236</b>	<b>-5%</b>
<b>Adjusted PAT margin</b>	<b>7.7%</b>	<b>3.8%</b>	<b>387 bps</b>	<b>8.2%</b>	<b>-50 bps</b>
Exceptional items	-	-	N.M.	-	0 bps
<b>Reported PAT</b>	<b>24,851</b>	<b>10,128</b>	<b>145%</b>	<b>26,236</b>	<b>-5%</b>

Source: Company data, I-Sec research

**Exhibit 2: MSIL's per vehicle matrix**

Per vehicle matrix	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
Total Volume (units)	4,98,030	4,67,931	6%	5,14,927	-3%
Net Realisation (INR)	6,49,095	5,66,319	15%	6,22,379	4%
Raw Material per Vehicle (INR)	4,72,496	4,22,502	12%	4,56,131	4%
EBITDA per vehicle (INR)	59,896	40,863	47%	65,064	-8%
PAT per Vehicle (INR)	49,899	21,644	131%	50,951	-2%

Source: I-Sec research, Company data

**Exhibit 3: MSIL's Q1FY24 quarterly volume breakup**

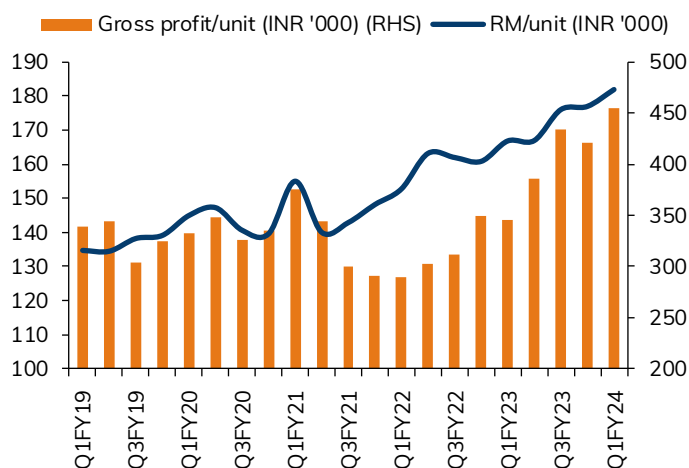
Volume break-up (units)	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
PCs	2,54,978	2,56,536	-1%	2,86,565	-11%
UVs	1,26,401	80,852	56%	1,05,957	19%
MPVs	32,676	31,766	3%	35,056	-7%
<b>Total PVs</b>	<b>4,14,055</b>	<b>3,69,154</b>	<b>12%</b>	<b>4,27,578</b>	<b>-3%</b>
PCs	62%	69%	-791 bps	67%	-544 bps
UVs	31%	22%	863 bps	25%	575 bps
MPVs	8%	9%	-71 bps	8%	-31 bps

Source: Industry data, I-Sec research

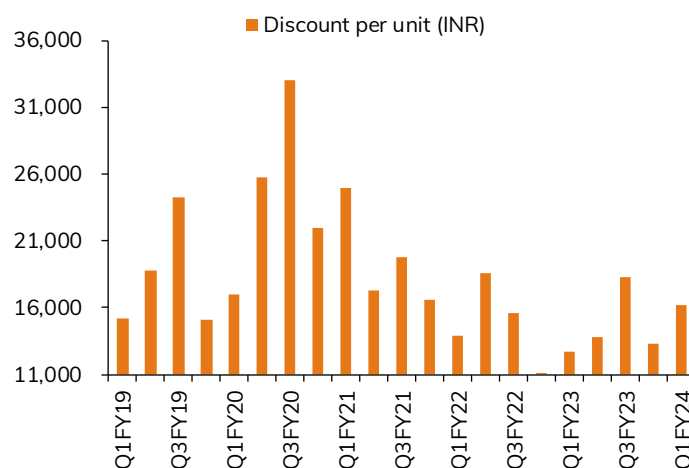
**Exhibit 4: Estimates revision**

	FY24E			FY25E		
	Old	Revised	% change	Old	Revised	% change
Volume (mn)	2.1	2.1	0.0%	2.3	2.3	0.0%
Revenue (INR bn)	1,424	1,424	0.0%	1,629	1,629	0.0%
EBITDA (INR bn)	162	162	0.0%	185	189	1.8%
EBITDA margin (%)	11.4%	11.4%	-	11.4%	11.6%	20
Adj. PAT (INR bn)	114	114	0.0%	135	137	1.9%
EPS (INR)	379	379	0.0%	446	454	1.9%

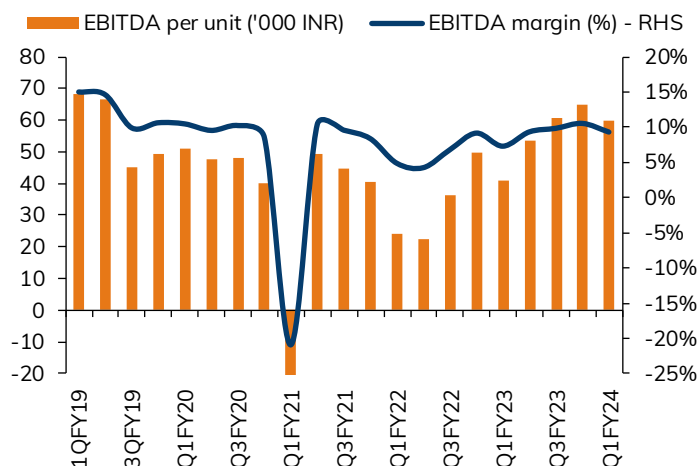
Source: Company data, I-Sec research

**Exhibit 5: Gross profit per unit improved QoQ**

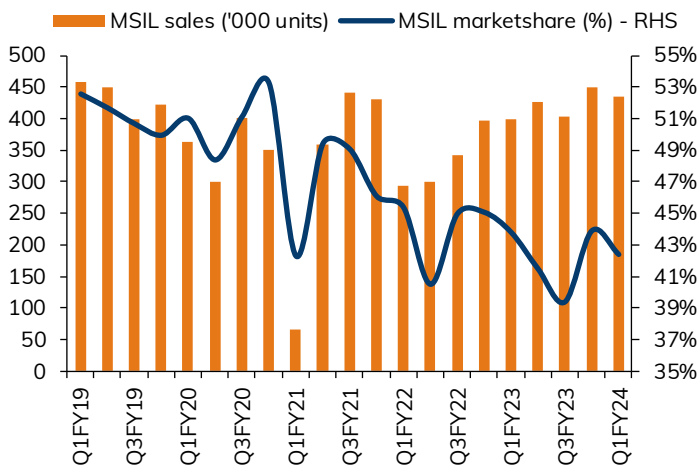
Source: I-Sec research, Company data

**Exhibit 6: Discount per vehicle continues to be low**

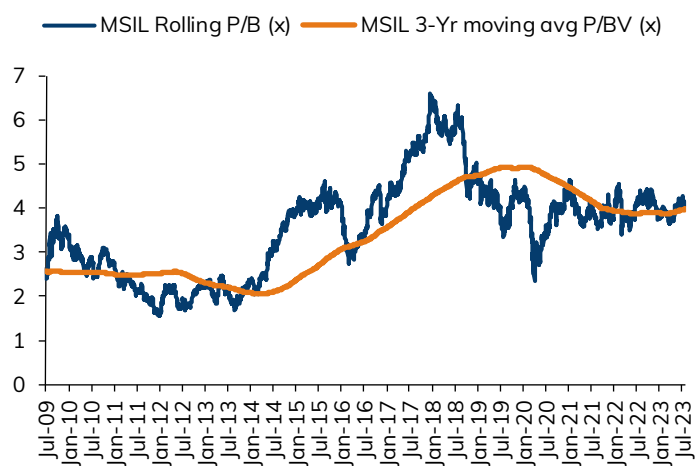
Source: I-Sec research, Company data

**Exhibit 7: EBITDA per unit and margin trends**

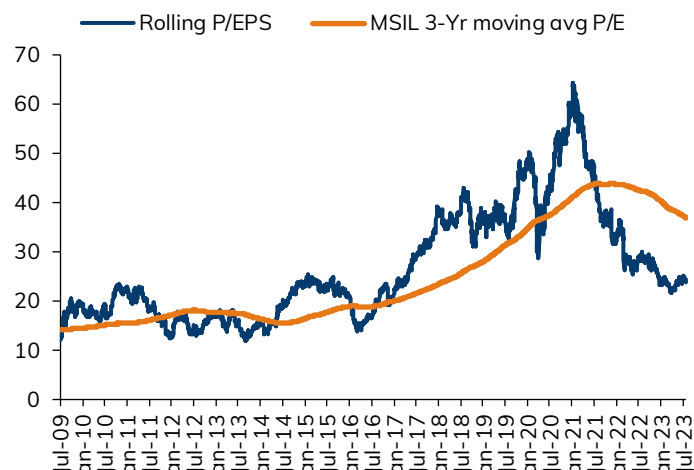
Source: I-Sec research, Company data

**Exhibit 8: Quarterly PV market share trends**

Source: I-Sec research, Company data

**Exhibit 9: 3-year moving P/B**

Source: Bloomberg, I-Sec research, Company data

**Exhibit 10: 3-year moving P/E**

Source: Bloomberg, I-Sec research, Company data

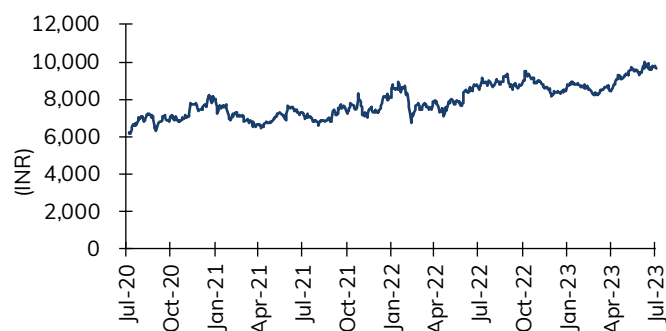
### Downside risks

- Consolidation in demand for PV in the last 12 months, followed by demand curtailment ahead on the back of limited revival in rural markets and demand consolidation in urban markets (post robust growth in FY22-23).
- Continued rise in competitive intensity with new launches in key segments by Honda, Hyundai, Tata Motors in coming quarters.
- Enhancement in capacity, inclusion of EVs and ever increasing competitive intensity to impact the pricing power of MSIL and in turn affect its profitability and capital efficiency.

**Exhibit 11: Shareholding pattern**

%	Dec'22	Mar'23	Jun'23
Promoters	56.4	56.5	56.5
Institutional investors	39.8	39.8	40.1
MFs and other	11.6	11.7	11.3
FIs/ Banks	0.0	0.1	0.0
Insurance Cos.	6.6	6.9	5.4
FIIIs	21.6	21.1	23.4
Others	3.8	3.7	3.4

Source: Bloomberg, I-Sec research

**Exhibit 12: Price chart**

Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>8,82,956</b>	<b>11,75,229</b>	<b>14,23,875</b>	<b>16,29,454</b>
Operating Expenses	1,65,571	2,02,717	2,29,507	2,61,014
<b>EBITDA</b>	<b>57,012</b>	<b>1,10,077</b>	<b>1,62,059</b>	<b>1,88,716</b>
EBITDA Margin (%)	6.5	9.4	11.4	11.6
Depreciation & Amortization	27,865	28,233	37,861	44,003
EBIT	29,147	81,844	1,24,198	1,44,713
Interest expenditure	1,259	1,866	1,866	1,866
Other Non-operating Income	17,935	21,613	26,284	35,245
<b>Recurring PBT</b>	<b>45,823</b>	<b>1,01,591</b>	<b>1,48,616</b>	<b>1,78,092</b>
Profit / Loss from Associates	-	-	-	-
Less: Taxes	8,160	21,099	34,182	40,961
PAT	37,663	80,492	1,14,435	1,37,131
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>37,663</b>	<b>80,492</b>	<b>1,14,435</b>	<b>1,37,131</b>
<b>Net Income (Adjusted)</b>	<b>37,663</b>	<b>80,492</b>	<b>1,14,435</b>	<b>1,37,131</b>

Source Company data, I-Sec research

### Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	5,67,476	6,24,768	7,36,844	8,44,034
of which cash & cash eqv.	4,37,995	4,77,898	5,87,417	6,77,496
Total Current Liabilities & Provisions	1,89,264	2,15,809	2,83,033	3,21,684
<b>Net Current Assets</b>	<b>3,78,212</b>	<b>4,08,959</b>	<b>4,53,811</b>	<b>5,22,349</b>
Investments	-	-	-	-
Net Fixed Assets	1,40,076	1,78,938	2,12,271	2,41,594
ROU Assets	-	-	-	-
Capital Work-in-Progress	26,391	28,081	28,081	28,081
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>5,44,679</b>	<b>6,15,978</b>	<b>6,94,163</b>	<b>7,92,024</b>
Liabilities				
Borrowings	3,819	12,158	12,158	12,158
Deferred Tax Liability	-	-	-	-
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	1,510	1,510	1,510	1,510
Reserves & Surplus	5,39,350	6,02,310	6,80,495	7,78,355
<b>Total Net Worth</b>	<b>5,40,860</b>	<b>6,03,820</b>	<b>6,82,005</b>	<b>7,79,866</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>5,44,679</b>	<b>6,15,978</b>	<b>6,94,163</b>	<b>7,92,024</b>

Source Company data, I-Sec research

### Exhibit 15: Quarterly trend

(INR mn, year ending March)

	FY22E	FY23E	FY24E	FY25E
Tax Burden (Adjusted PAT/PBT)	82.2	79.2	77.0	77.0
Interest Burden (PBT/EBIT)	157.2	124.1	119.7	123.1
EBIT Margin (EBIT/Sales)	3.3	7.0	8.7	8.9
Asset Turnover (Sales/Total Assets)	162.1	190.8	205.1	205.7
Financial Leverage (Total Assets/Equity)	100.7	102.0	101.8	101.6
ROE	7.1	14.1	17.8	-

Source Company data, I-Sec research

### Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>17,912</b>	<b>92,280</b>	<b>1,83,481</b>	<b>1,66,275</b>
Working Capital Changes	(45,266)	3,787	55,604	18,521
Capital Commitments	(33,227)	(62,474)	(71,194)	(73,325)
<b>Free Cashflow</b>	<b>(15,315)</b>	<b>29,806</b>	<b>1,12,288</b>	<b>92,950</b>
Other investing cashflow	31,337	(17,708)	-	-
<b>Cashflow from Investing Activities</b>	<b>(1,890)</b>	<b>(80,182)</b>	<b>(71,194)</b>	<b>(73,325)</b>
Issue of Share Capital	-	-	-	-
Interest Cost	(1,362)	(2,298)	24,418	33,379
Inc (Dec) in Borrowings	(1,069)	8,339	-	-
Dividend paid	(13,594)	(18,125)	(27,187)	(36,250)
Others	-	-	-	-
<b>Cash flow from Financing Activities</b>	<b>(16,025)</b>	<b>(12,084)</b>	<b>(2,769)</b>	<b>(2,871)</b>
Chg. in Cash & Bank balance	(3)	14	1,09,519	90,079
Closing cash & balance	320	334	1,09,853	1,99,932

Source Company data, I-Sec research

### Exhibit 17: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	124.7	266.5	378.8	454.0
Adjusted EPS (Diluted)	124.7	266.5	378.8	454.0
Cash EPS	216.9	359.9	504.2	599.6
Dividend per share (DPS)	60.0	90.0	120.0	130.0
Book Value per share (BV)	1,790.5	1,998.9	2,257.7	2,581.7
Dividend Payout (%)	48.1	33.8	31.7	28.6
<b>Growth (%)</b>				
Net Sales	25.5	33.1	21.2	14.4
EBITDA	6.7	93.1	47.2	16.4
EPS (INR)	(11.0)	113.7	42.2	19.8
<b>Valuation Ratios (x)</b>				
P/E	78.8	36.9	25.9	21.6
P/CEPS	45.3	27.3	19.5	16.4
P/BV	5.5	4.9	4.3	3.8
EV / EBITDA	44.4	22.7	14.8	12.2
EV / Sales	2.9	2.1	1.7	1.4
<b>Profitability Ratios</b>				
Gross Profit Margins (%)	25.2	26.6	27.5	27.6
EBITDA Margins (%)	6.5	9.4	11.4	11.6
EBIT Margins (%)	3.3	7.0	8.7	8.9
Net Profit Margins (%)	4.3	6.8	8.0	8.4
RoCE (%)	4.4	10.8	13.9	14.3
RoE (%)	7.1	14.1	17.8	18.8
Dividend Yield (%)	0.6	0.9	1.2	1.3
<b>Operating Ratios</b>				
Fixed Asset Turnover (x)	5.3	5.7	5.9	6.0
Inventory Turnover Days	20	22	22	21
Receivables Days	7	8	8	7
Payables Days	66	53	53	56
Effective Tax Rate (%)	17.8	20.8	23.0	23.0
Net Debt / Equity (x)	(0.8)	(0.8)	(0.8)	(0.9)
Net Debt / EBITDA (x)	(7.6)	(4.2)	(3.5)	(3.5)

Source Company data, I-Sec research

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