

Maruti Suzuki

Weak margins led by one-offs, brand spends

Valuation and View – On track to outperform industry in FY24E

Adjusted for one-offs of 80bp impact on staff cost, MSIL's 1QFY24 EBITDA were ~7%/in-line to our/street estimates. Going forward, the management has indicated while stability in RM to continue (further to be aided by cost savings programs), spends on branding building would likely remain at an elevated level. Demand guidance remain steady as MSIL is on track to outperform industry in FY24E (backed by new launches). Overall orderbook declined to ~355k v/s (~412k in 4QFY23 and ~350k units in 1QFY23) is bit lower than expected given decent response to new launches (Brezza 48k, Grand Vitara – 27k, Jimny – 23k, Fronx – 23k, Invicto – 8k, Ertiga – 96k). Lastly, production consolidation at group level (SMG will be part of MSIL), would be long term positive given synergies of manufacturing and planning efficiencies under one-roof. While consideration of the same yet to be worked out, it would likely be at book value (SMG book value of Rs127b as of FY23). Given MSIL is expanding its manufacturing capacities (Rs70b capex planned), we ascribed to management intention of consolidating varied powertrains with MSIL. We build in healthy revenue/EBITDA/PAT CAGR of 14%/22%/27% over FY23-25E. We maintain ADD rating on the stock with revised TP of Rs11,004 (v/s Rs10,703) valuing the stock at 25x Mar-25 EPS (v/s 10yr LPA of 29x). We upgrade FY24/25E EPS by ~1-2.5% to build in higher ASP as contribution from recently launched SUVs to increase.

Result Highlights – Adjusted for one-offs, Op, performance still weak

- Revenues grew ~22% YoY (+0.9% QoQ) at Rs323.3b (in-line) led by 14.6% YoY (+4.3% QoQ) growth in ASPs at record Rs649.1k/unit (est Rs647.3k/unit) while volumes grew 6.4% YoY (-3.3% QoQ) at 498k units. Average discounts increased for 1QFY24 at Rs16,214 per unit v/s 4QFY23 at Rs13,269/unit (2.5% of ASP vs 2.1% in 4QFY23).
- Gross margins came in weaker than expected at 27.2% (est 27.6%, +180bp YoY/+50bp QoQ). Management indicated stable RM ahead while cost savings to help.
- Other expense came in higher at Rs43.5b (est Rs41.9b, +19% YoY), led by heightened ad/promotional expenses ahead of new launches. Co indicated in one-offs expense of ~80bp account of payment to employees (retention and retirement benefits related).
- Consequently, EBITDA grew 56% YoY (-11% QoQ) at Rs29.8b (est ~Rs35b, cons Rs32.5b) with margins expanded 200bp YoY (-120bp QoQ) at 9.2% (est 10.8%, cons 10.2%). Royalty for 1QFY24 was at 3.8% (v/s 3.9% for 3QFY23 v/s 3.8% in 2QFY23 and 3.6% in 1QFY23).
- Weak operating performance was partially offset by higher other income at Rs10b (est Rs6.3b, +35% QoQ), led adj.PAT at ~Rs24.9b (est Rs26.3b, cons Rs24.7b).

Exhibit 1: Actual vs estimates

| Rs m | Actual | Estimate | | % variation | | Remarks |
|------------------|---------|----------|-----------|-------------|-----------|---|
| | | Yes Sec | Consensus | Yes Sec | Consensus | |
| Sales | 323,269 | 22,362 | 318,470 | 0.3 | 1.5 | MSIL's operating performance was dented by weak gross margins and higher other expenses QoQ.. |
| EBITDA | 29,830 | 34,815 | 32,510 | -14.3 | -8.2 | |
| EBITDA margins % | 9.2 | 10.8 | 10.2 | -160bp | -100bp | |
| Adj PAT | 24,851 | 26,366 | 24,733 | -5.7 | 0.5 | |

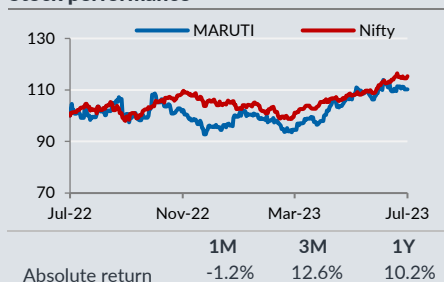
Source: Company, YES Sec

| | |
|------------------|-------------|
| Reco | : ADD |
| CMP | : Rs 9,806 |
| Target Price | : Rs 11,004 |
| Potential Return | : +12% |

Stock data (as on July 31, 2023)

| | |
|-------------------------|--------------------|
| Nifty | 19,782 |
| 52 Week h/l (Rs) | 10,037 / 8,076 |
| Market cap (Rs/USD mn) | 2,92,1005 / 35,564 |
| Outstanding Shares (mn) | 302 |
| 6m Avg t/o (Rs mn): | 4,091 |
| Div yield (%) | 0.9 |
| Bloomberg code: | MSIL IN |
| NSE code: | MARUTI |

Stock performance



Shareholding pattern (As of June'23 end)

| | |
|----------|-------|
| Promoter | 56.4% |
| FII+DII | 39.8% |
| Others | 3.8% |

Δ in stance

| (1-Yr) | New | Old |
|--------------|--------|--------|
| Rating | ADD | ADD |
| Target Price | 11,004 | 10,732 |

Δ in earnings estimates

| | FY24E | FY25E |
|-----------|-------|-------|
| EPS (New) | 422.4 | 440.2 |
| EPS (Old) | 416.4 | 429.3 |
| % change | 1.4% | 2.5% |

Financial Summary

| Y/E MAR (Rs b) | 2023 | 2024E | 2025E |
|----------------|-------|-------|-------|
| Sales | 1,175 | 1,394 | 1,539 |
| EBITDA | 110 | 158 | 165 |
| Adj. PAT | 80 | 125 | 130 |
| EPS | 275 | 422 | 440 |
| EPS Gr. (%) | 108 | 54 | 4 |
| BV/Sh. | 1,999 | 2,313 | 2,633 |
| RoE (%) | 13.3 | 17.9 | 16.4 |
| RoCE (%) | 14.4 | 19.6 | 18.3 |
| Payout (%) | 33.8 | 24.2 | 25.5 |
| P/E (x) | 35.7 | 23.2 | 22.3 |
| P/BV (x) | 4.9 | 4.2 | 3.7 |
| EV/EBITDA (x) | 22.6 | 15.5 | 14.6 |
| Div Yield (%) | 0.9 | 1.0 | 1.1 |

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Exhibit 2: Quarterly snapshot

| Y/e Mar (Rs m) | Q1FY24 | Q1FY23 | YoY chg (%) | Q4FY23 | FY23 | FY22 | YoY chg (%) |
|---------------------------|---------|---------|-------------|---------|-----------|-----------|-------------|
| Net Revenues | 323,269 | 264,998 | 22.0 | 320,480 | 1,175,229 | 882,956 | 33.1 |
| Raw Materials | 235,317 | 197,702 | 19.0 | 234,874 | 862,435 | 660,373 | 30.6 |
| % of Net Sales | 72.8% | 74.6% | | 73.3% | 73.4% | 74.8% | |
| Personnel | 14,609 | 11,584 | 26.1 | 11,130 | 46,051 | 40,222 | 14.5 |
| % of Net Sales | 4.5% | 4.4% | | 3.5% | 3.9% | 4.6% | |
| Manufacturing & Other Exp | 43,513 | 36,591 | 18.9 | 40,973 | 158,099 | 125,743 | 25.7 |
| % of Net Sales | 13.5% | 13.8% | | 12.8% | 13.5% | 14.2% | |
| Total Expenditure | 293,439 | 245,877 | 19.3 | 286,977 | 1,066,585 | 826,338 | 29.1 |
| EBITDA | 29,830 | 19,121 | 56.0 | 33,503 | 108,644 | 56,618 | 91.9 |
| EBITDA Margin (%) | 9.2% | 7.2% | | 10.5% | 9.2% | 6.4% | |
| Depreciation | 7,475 | 6,514 | 14.8 | 7,392 | 28,233 | 27,865 | 1.3 |
| EBIT | 22,355 | 12,607 | 77.3 | 26,111 | 80,411 | 28,753 | 179.7 |
| Interest Expenses | 465 | 274 | 69.7 | 991 | 1,866 | 1,259 | 48.2 |
| Non-operating income | 10,012 | 885 | 1,031.3 | 7,428 | 23,046 | 18,329 | 25.7 |
| PBT | 31,902 | 13,218 | 141.4 | 32,548 | 101,591 | 45,823 | 121.7 |
| Tax-Total | 7,051 | 3,090 | 128.2 | 6,312 | 21,099 | 8,160 | 158.6 |
| Tax Rate (%) - Total | 22.1% | 23.4% | | 19.4% | 20.8% | 17.8% | |
| Reported PAT | 24,851 | 10,128 | 145.4 | 26,236 | 80,492 | 37,663 | 113.7 |
| Adj. PAT | 24,851 | 10,128 | 145.4 | 26,236 | 80,492 | 37,663 | 113.7 |
| PAT Margin | 7.7% | 3.8% | | 8.2% | 6.8% | 4.3% | |
| Key Operating Matrix | | | | | | | |
| Sales Volume (nos) | 498,030 | 467,931 | 6.4 | 514,927 | 1,966,164 | 1,652,653 | 19.0 |
| Net Realisation/Vehicle | 649,095 | 566,319 | 14.6 | 622,379 | 597,727 | 534,266 | 11.9 |
| Material cost / vehicle | 472,496 | 422,502 | 11.8 | 456,131 | 438,638 | 399,584 | 9.8 |
| Gross Profit / vehicle | 176,600 | 143,816 | 22.8 | 166,249 | 159,088 | 134,682 | 18.1 |
| Employee cost /vehicle | 29,334 | 24,756 | 18.5 | 21,615 | 23,422 | 24,338 | (3.8) |
| Other expenses / vehicle | 87,370 | 78,197 | 11.7 | 79,571 | 80,410 | 76,086 | 5.7 |
| EBITDA/vehicle | 59,896 | 40,863 | 46.6 | 65,064 | 55,257 | 34,259 | 61.3 |
| Net Profit/vehicle | 49,899 | 21,644 | 130.5 | 50,951 | 40,939 | 22,789 | 79.6 |

Source- Company, Yes Sec

KEY CON-CALL HIGHLIGHTS

Termination of contract manufacturing agreement – as indicated by the management, to streamline process and management bandwidth in changing technology landscape.....all the production of vehicles will be taken care by MSIL in India.

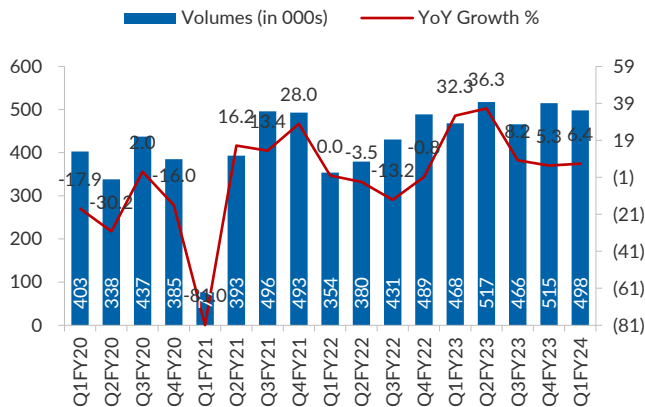
- **Timelines** - Co wish to complete the transaction in FY24E itself. It will go through all the regulatory approvals including minority share holders app
- **Consideration** – have not deliberated either it will be share swap or cash.
- **Efficiency gains are expected as production planning will be agile due to varied powertrains and economies of scale.**
- **Production of BEV will be part of MSIL (as it part of SMG) while production of batteries will be with SRDI (Suzuki Research and Development India).**
- Book value of SMG would be ~Rs127b as of Mar'23 and don't expect to change materially.

Demand

- **Industry ex of Maruti grew 6-7% while MSIL grew ~12% in 1Q. With new launches, expect the same to continue. Expect growth optically look lower led by high base YoY. Retail sales was ~380k (+8% YoY).**
- **ECU shortage led to production loss of ~28k units in 1QFY24 (vs 170k in FY23).**
- **Order book stands at ~355k units as of 1QFY24 (v/s ~412k units in 4QFY23).** Fronx monthly run-rate is ~9k units and order book of ~22k. Share of first-time buyers at ~40% (v/s 42-44%).
 - **Orderbook split – Brezza 48k, Grand Vitara – 27k, Jimny – 23k, Fronx – 23k, Invicto – 8k, Ertiga – 96k.**
- **CNG** – With the launch of the Fronx in CNG, MSIL is now have ~15 models with factory fitted CNG options. Co sold 113k CNG units in 1QFY24 with CNG penetration highest at 27% (v/s 20% in 4QFY23).
- **Exports** – have started exports of Fronx to markets like Latin America, Middle East and Africa.
- **Network inventory** at ~125k units (~4 weeks) as of end 1QFY24 vs 2-3 weeks in 4QFY23.
- **EBITDA margins impacted due to one-offs-** ~80bp one off on account of payment to employees (retention related and retirement benefits) and would not be repetitive in nature.
 - **RM** – don't expect RM to improve QoQ but expect it to remain stable...but cost savings on other cost.
- **Discounts increased QoQ** - Average discounts for 1QFY24 at Rs16,214 per unit v/s 4QFY23 at Rs13,269/unit (v/s Rs18,291/unit in 3QFY23 and Rs11,130/unit in 4QFY22).
- SMG accounted for ~40% of production in 1QFY24.
- **Royalty rate for 1QFY24 was at 3.8%** (v/s 3.9% for 3QFY23 v/s 3.8% in 2QFY23 and 3.6% in 1QFY23).
- **Capex** – ex of SMG was expected at Rs70b.

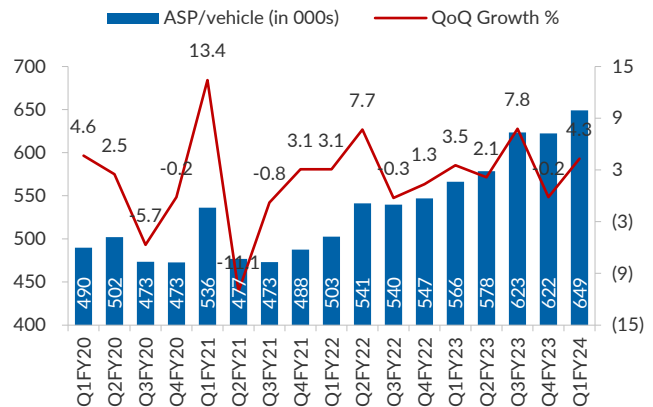
CHARTS

Exhibit 1: Seasonal reasons led volume decline QoQ



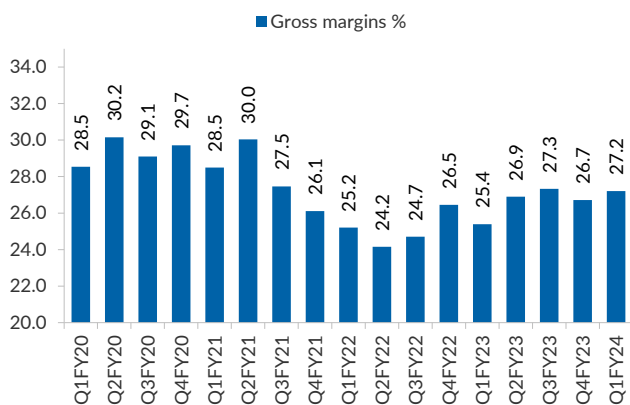
Source: Company, YES Sec

Exhibit 2: While ~4% ASP growth QoQ is healthy



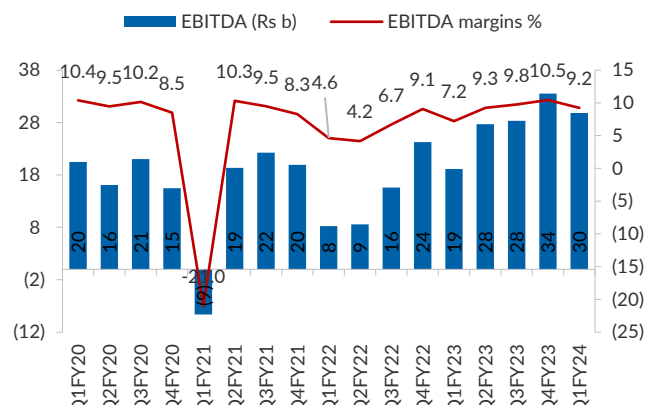
Source: Company, SIAM, YES Sec

Exhibit 3: Gross margin expanded 50bp QoQ at 27.2%



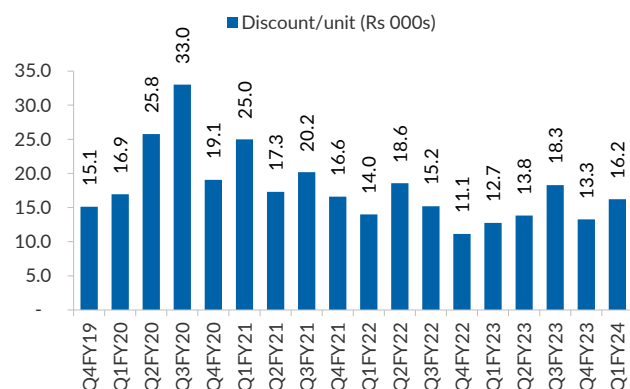
Source: Company, YES Sec

Exhibit 4: Margins contracted 130bp QoQ at 9.2%



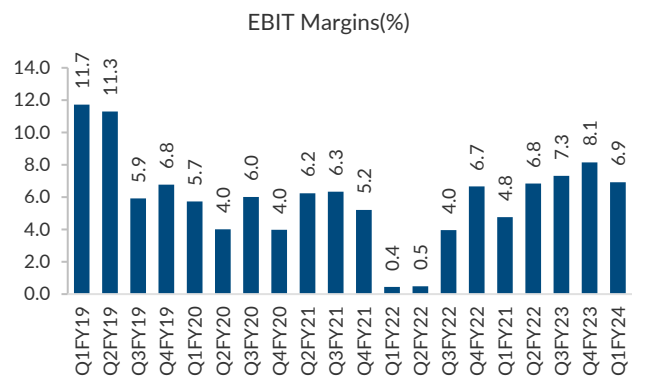
Source: Company, YES Sec

Exhibit 5: 1QFY24 average discount/unit inched up



Source: Company, YES Sec

Exhibit 6: EBIT Margin expanded 110bp QoQ at 6.9%



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

| Y/E March (Rs mn) | 2021 | 2022 | 2023 | 2024E | 2025E |
|-----------------------------|----------|----------|----------|----------|----------|
| Sources of Funds | | | | | |
| Share Capital | 1,510 | 1,510 | 1,510 | 1,510 | 1,510 |
| Reserves | 512,158 | 539,350 | 602,310 | 697,055 | 793,946 |
| Net Worth | 513,668 | 540,860 | 603,820 | 698,565 | 795,456 |
| Loans | 418 | 370 | 315 | 315 | 315 |
| Deferred Tax Liability | 3,847 | (2,027) | (3,411) | (3,411) | (3,411) |
| Capital Employed | 517,933 | 539,203 | 600,724 | 695,469 | 792,360 |
| Application of Funds | | | | | |
| Gross Fixed Assets | 314,553 | 324,892 | 394,890 | 492,971 | 542,971 |
| Less: Depreciation | 164,983 | 187,719 | 215,952 | 246,783 | 275,582 |
| Net Fixed Assets | 149,570 | 137,173 | 178,938 | 246,188 | 267,389 |
| Capital WIP | 14,898 | 29,294 | 28,081 | 10,000 | 10,000 |
| Investments | 417,867 | 407,633 | 477,564 | 497,564 | 532,564 |
| Curr.Assets, Loans | 113,877 | 152,387 | 138,064 | 166,844 | 209,305 |
| Inventory | 30,500 | 35,331 | 42,838 | 50,822 | 56,107 |
| Sundry Debtors | 12,766 | 20,301 | 32,958 | 26,739 | 29,520 |
| Cash & Bank Balances | 30,364 | 30,362 | 377 | 15,074 | 34,687 |
| Loans & Advances | 232 | 307 | 299 | 299 | 299 |
| Others | 40,015 | 66,086 | 61,592 | 73,910 | 88,692 |
| Current Liab. & Prov. | 178,279 | 187,284 | 221,923 | 225,127 | 226,897 |
| Sundry Creditors | 167,273 | 172,163 | 205,586 | 209,984 | 210,473 |
| Other Liabilities | - | - | - | - | - |
| Provisions | 11,006 | 15,121 | 16,337 | 15,143 | 16,424 |
| Net Current Assets | (64,402) | (34,897) | (83,859) | (58,283) | (17,592) |
| Appl. of Funds | 517,933 | 539,203 | 600,724 | 695,469 | 792,360 |

Source: Company, YES Sec

Exhibit 8: Income statement

| Y/E March (Rs mn) | 2021 | 2022 | 2023 | 2024E | 2025E |
|------------------------|---------|---------|-----------|-----------|-----------|
| Operating Other Income | 37,704 | 44,975 | 50,221 | 56,807 | 63,109 |
| Net Op Income | 703,325 | 882,956 | 1,175,229 | 1,394,252 | 1,539,247 |
| Change (%) | -7.0 | 25.5 | 33.1 | 18.6 | 10.4 |
| EBITDA | 53,453 | 57,012 | 110,077 | 157,688 | 164,614 |
| EBITDA Margins (%) | 7.6 | 6.5 | 9.4 | 11.3 | 10.7 |
| Depreciation | 30,315 | 27,865 | 28,233 | 30,831 | 28,800 |
| EBIT | 23,138 | 29,147 | 81,844 | 126,857 | 135,815 |
| Interest | 1,008 | 1,259 | 1,866 | 1,922 | 2,114 |
| Other Income | 29,464 | 17,935 | 21,613 | 31,256 | 28,949 |
| EO Expense | 0 | 0 | 0 | 0 | 0 |
| PBT | 51,594 | 45,823 | 101,591 | 156,191 | 162,650 |
| Tax | 9,297 | 8,160 | 21,099 | 31,238 | 32,530 |
| Effective tax Rate (%) | 18.0 | 17.8 | 20.8 | 20.0 | 20.0 |
| PAT | 42,297 | 37,663 | 80,492 | 124,953 | 130,120 |
| Change (%) | (25.1) | (11.0) | 113.7 | 55.2 | 4.1 |
| Adj. PAT | 42,297 | 37,663 | 80,492 | 124,953 | 130,120 |
| Change (%) | (25.1) | (11.0) | 113.7 | 55.2 | 4.1 |

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

| Y/E March (Rs mn) | 2021 | 2022 | 2023 | 2024E | 2025E |
|------------------------|----------|----------|----------|----------|----------|
| Profit before Tax | 51,594 | 45,823 | 101,591 | 156,191 | 162,650 |
| Interest | 1,008 | 1,259 | 1,866 | 1,922 | 2,114 |
| Depreciation | 30,315 | 27,865 | 28,233 | 30,831 | 28,800 |
| Direct Taxes Paid | (10,107) | (11,769) | (22,313) | (31,238) | (32,530) |
| (Inc)/Dec in WC | 43,352 | (28,098) | 3,787 | (10,879) | (21,078) |
| Other Items | (27,774) | (17,168) | (20,884) | (31,256) | (28,949) |
| CF from Oper. Activity | 88,388 | 17,912 | 92,280 | 115,571 | 111,007 |
| (Inc)/Dec in FA | (23,278) | (33,227) | (62,474) | (80,000) | (50,000) |
| Free Cash Flow | 65,110 | (15,315) | 29,806 | 35,571 | 61,007 |
| (Pur)/Sale of Invest. | (49,561) | 31,337 | (17,708) | 11,256 | (6,051) |
| CF from Inv. Activity | (72,839) | (1,890) | (80,182) | (68,744) | (56,051) |
| Change in Networkth | - | - | - | (0) | (0) |
| Inc/(Dec) in Debt | 3,723 | (1,140) | 7,895 | - | - |
| Interest Paid | (1,006) | (1,291) | (1,854) | (1,922) | (2,114) |
| Dividends Paid | (18,125) | (13,594) | (18,125) | (30,208) | (33,229) |
| CF from Fin. Activity | (15,408) | (16,025) | (12,084) | (32,130) | (35,343) |
| Inc/(Dec) in Cash | 141 | (3) | 14 | 14,697 | 19,613 |
| Add: Op. Balance | 182 | 323 | 320 | 377 | 15,074 |
| Closing Balance | 323 | 320 | 334 | 15,074 | 34,687 |

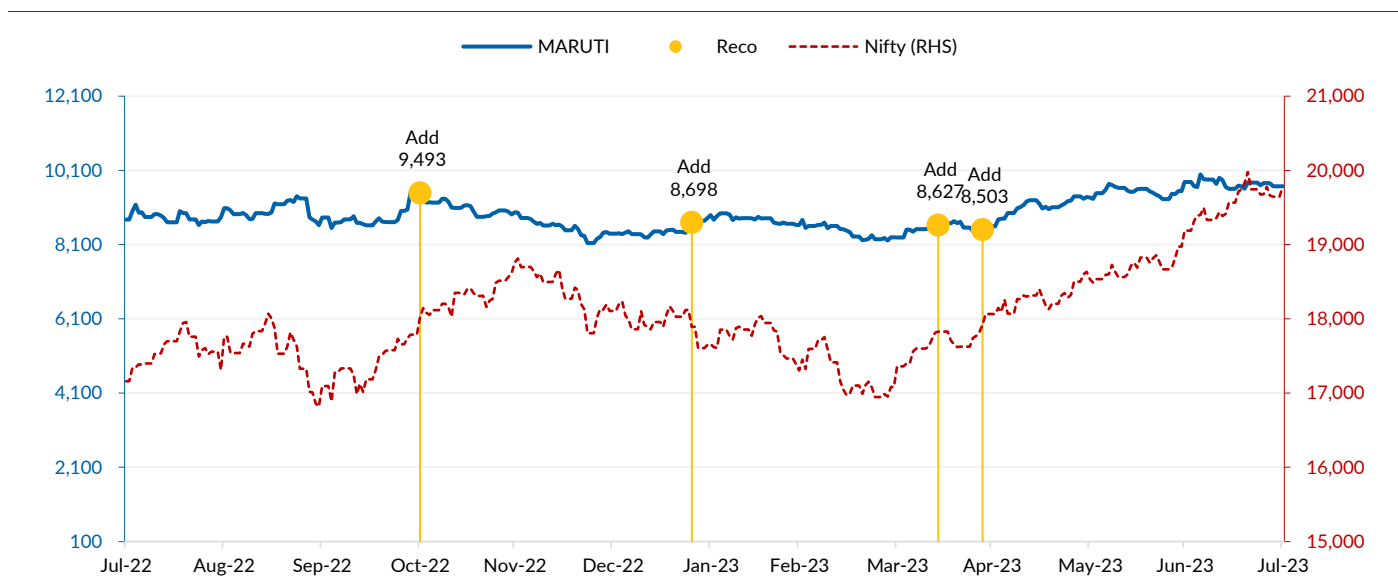
Source- Company, Yes Sec

Exhibit 10: Ratios

| Y/E March | 2021 | 2022 | 2023 | 2024E | 2025E |
|---------------------------------|---------|---------|---------|---------|---------|
| Basic (INR) | | | | | |
| Adjusted EPS | 140.0 | 124.7 | 266.5 | 413.6 | 430.7 |
| Consol EPS | 147.0 | 132.2 | 274.6 | 422.4 | 440.2 |
| Cash EPS | 240.4 | 216.9 | 359.9 | 515.7 | 526.1 |
| Book Value per Share | 1,700.4 | 1,790.5 | 1,998.9 | 2,312.5 | 2,633.3 |
| DPS | 45.0 | 60.0 | 90.0 | 100.0 | 110.0 |
| Div. payout (%) | 32.1 | 48.1 | 33.8 | 24.2 | 25.5 |
| Valuation (x) | | | | | |
| Consol. P/E | 66.7 | 74.2 | 35.7 | 23.2 | 22.3 |
| Cash P/E | 40.8 | 45.2 | 27.2 | 19.0 | 18.6 |
| EV/EBITDA | 47.0 | 44.3 | 22.6 | 15.5 | 14.6 |
| EV/Sales | 3.6 | 2.9 | 2.1 | 1.8 | 1.6 |
| P/BV | 5.8 | 5.5 | 4.9 | 4.2 | 3.7 |
| Dividend Yield (%) | 0.5 | 0.6 | 0.9 | 1.0 | 1.1 |
| FCF Yield (%) | 2.2 | (0.5) | 1.0 | 1.2 | 2.1 |
| Profitability Ratios (%) | | | | | |
| RoIC | 19.3 | 28.0 | 57.9 | 66.4 | 53.3 |
| RoE | 8.2 | 7.0 | 13.3 | 17.9 | 16.4 |
| RoCE | 4.6 | 5.5 | 14.4 | 19.6 | 18.3 |
| Turnover Ratios | | | | | |
| Debtors (Days) | 6.6 | 8.4 | 10.2 | 7.0 | 7.0 |
| Inventory (Days) | 15.8 | 14.6 | 13.3 | 13.3 | 13.3 |
| Creditors (Days) | 86.8 | 71.2 | 63.9 | 55.0 | 49.9 |
| Work. Cap. (Days) | (64.4) | (48.2) | (40.3) | (34.7) | (29.6) |
| Asset Turnover (x) | 1.0 | 1.2 | 1.4 | 1.5 | 1.5 |

Source- Company, Yes Sec

Recommendation Tracker



Source - YES Sec

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