

Automobile | Q2FY24 Result Update

Capturing the Premiumization trend

- MSIL's displayed strong margin performance in 2Q. OPM expanded 368bps QoQ to 12.9% led by better product mix (UVs volume share stood at 35%). Expect strong 3Q led by channel filling and festive season demand.
- Entry-level car demand is showing weakness, leading to offering higher discounts while SUV segment is on strong footing, Festive season PV's growth is 18% YoY till date.
- We continue to maintain a positive view on MSIL led by improving product mix, gaining market share in SUVs and expansion in operating margin. We increase EPS by 19/11% for FY24/25E factoring in sharp expansion in margin. We estimate 22% EPS CAGR over FY23-26E. Maintain Accumulate with target price Rs 11552(25xSept 25E).

Stellar Growth in SUVs segment

New launches in SUV segment (particularly the new Brezza, Grand Vitara and Fronx) is helping MSIL to gain market share in the fast growing SUV market. In 1HFY24, the company recorded spectacular growth of 87% in SUV segment vs 11% decline in passenger car segment, hence market share of MSIL improved to 25.8% vs 17% in last year. In 2Q, SUV contributed 39% of overall volume vs Industry mix of 60%. We expect volume of MSIL continue to move towards SUV segment to catch up further industry trend. Increase in SUV mix will continue to help in increase in ASP, service revenue and EBITDA per vehicle.

Although, FY25 Industry outlook appears muted amid limited launches, increase in inventory in entry level cars and decline in waiting period of new SUVs, we expect MSIL to outperform industry growth led by gain in market share in SUVs and strong presence in rural market.

Improving margin trajectory

Despite increase in discounts in entry level cars, we expect benign commodity prices and premiumization (increasing share of SUVs, exports) will help in sustaining the EBITDA margin above 12% Expect some increase in steel prices in 3Q, while precious metal prices continue to soften. JPY continues to depreciate against INR and the dollar and benefits may come in 3Q.

Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	370,621	299,308	23.8	323,269	14.6
Total Expense	322,779	271,619	18.8	293,439	10.0
EBITDA	47,842	27,689	72.8	29,830	60.4
Depreciation	7,941	7,226	9.9	7,475	6.2
EBIT	39,901	20,463	95.0	22,355	78.5
Other Income	8,436	6,125	37.7	10,012	(15.7)
Interest	351	305	15.1	465	(24.5)
EBT	47,986	26,283	82.6	31,902	50.4
Tax	10,821	5,668	90.9	7,051	53.5
RPAT	37,165	20,615	80.3	24,851	49.6
APAT	37,165	20,615	80.3	24,851	49.6
			(bps)		(bps)
Gross Margin (%)	29.4	26.9	249	27.2	218
EBITDA Margin (%)	12.9	9.3	366	9.2	368
NPM (%)	10.0	6.9	314	7.7	234
Tax Rate (%)	22.6	21.6	99	22.1	45
EBIT Margin (%)	10.8	6.8	393	6.9	385

CMP	Rs 10,561
Target / Upside	Rs 11,552 / 9%
NIFTY	19,047

Scrip Details

Equity / FV	Rs 1,570mn / Rs 5
Market Cap	Rs 3,316bn
	USD 40.4bn
52-week High/Low	Rs 10,845/ 8,076
Avg. Volume (no)	518,720
Bloom Code	MSIL IN

Price Performance	1M	3M	12M
Absolute (%)	0	9	11
Rel to NIFTY (%)	(1)	9	1

Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	56.4	56.5	56.5
MF/Banks/FIs	18.5	18.2	18.3
FIs	22.0	21.9	21.8
Public / Others	3.1	3.4	3.4

Valuation (x)

	FY24E	FY25E	FY26E
P/E	27.5	24.3	21.6
EV/EBITDA	19.0	16.2	14.1
ROE (%)	18.7	18.7	18.6
RoACE (%)	19.0	18.9	18.8

Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	1,439.5	1,586.2	1,732.2
EBITDA	170.5	195.7	217.6
PAT	120.7	136.5	153.7
EPS (Rs.)	384.5	434.7	489.4

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Exhibit 1: Actual vs DART

Particulars (Rs. Mn)	Actual	DART Est.	Variance	Comments
Revenue	370,621	367,135	0.9	Attributed to improvement in mix of UVs
EBIDTA	47,842	37,815	26.5	Due to benefit of operating leverage, appreciation of Rupee against JPY and better product mix.
EBIDTA Margin %	12.9	10.3	260.9 bps	
PAT	37165	27761	33.87	

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY24E			FY25E		
	New	Previous	Chg.(%)	New	Previous	Chg.(%)
Net sales	1,439,493	1,385,556	3.9	1,586,186	1,598,755	(0.8)
EBITDA	170,540	143,846	18.6	195,668	175,525	11.5
EBITDA margin (%)	11.8	10.4	1.47 bps	12.3	11.0	1.36 bps
APAT	120,737	97,472	23.9	136,506	118,806	14.9
EPS	385	323	19.2	435	393	10.5

Source: Company, DART, Increased EPS estimates led by increase in margin assumption for FY24/25E

Exhibit 3: Assumption table

(in units)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Domestic sales	1,461,511	1,666,176	1,365,370	1,711,831	1,895,079	1,989,400	2,108,899
% YoY	(16.1)	14.0	(18.1)	25.4	10.7	5.0	6.0
Export sales	101,786	96,139	238,276	259,333	264,520	296,262	331,813
% YoY	(6.4)	(5.5)	147.8	8.8	2.0	12.0	12.0
Total sales	1,563,297	1,762,315	1,603,646	1,971,164	2,159,598	2,285,662	2,440,712
% YoY	(15.5)	12.7	(9.0)	22.9	9.6	5.8	6.8

Source: Company, DART

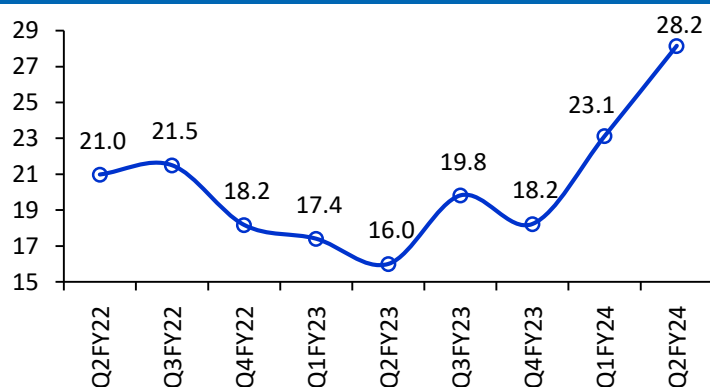
Investment Arguments

Gaining ground in SUVs segment

MSIL has an order backlog of 250k units mainly for SUVs segment. SUV volume jumped 87% and market shares improved to 25.8% in 1HFY24. We expect new product launches like refreshed Brezza, Grand Vitara a new midsize SUV (partnership with Toyota) Jimny and Fronx to fill up the white-spaces in mid and compact SUVs.

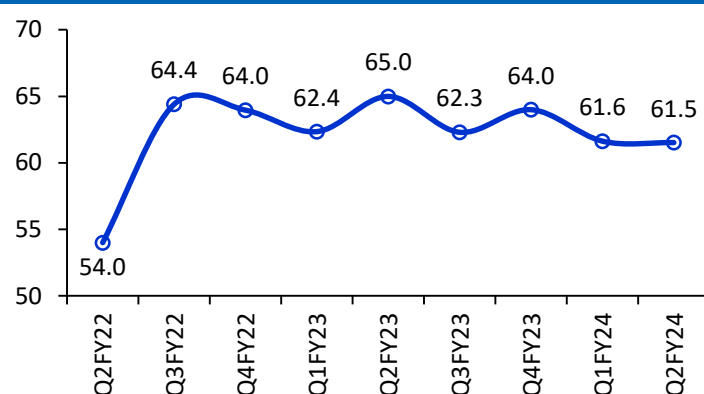
However, inventory level restored at 7-8 week led by increasing channel inventory in entry level cars. We expect strong festive season sales (led by higher discount offering and pick up in rural demand) to bring down inventory at normal level. Despite high base, we expect PVs demand to continue to be supported by rural demand and credit expansion. MSIL is confident to outperform industry growth (company expectation of 10% vs 5% Industry growth in FY24) led by new launches and increasing share in the UVs segment.

Exhibit 4: Maruti UVS Market Share (%)



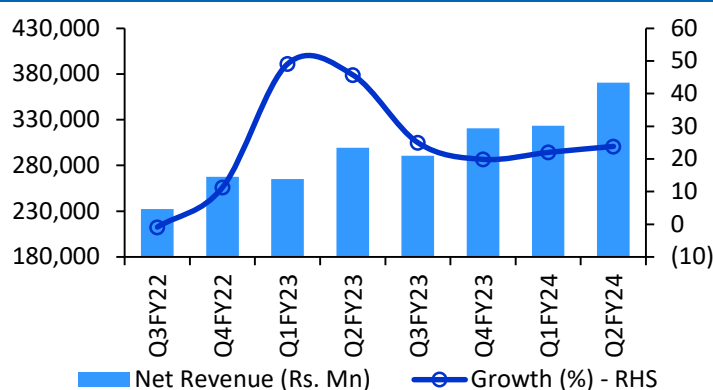
Source: Company, DART

Exhibit 5: Maruti PCs Market Share (%)



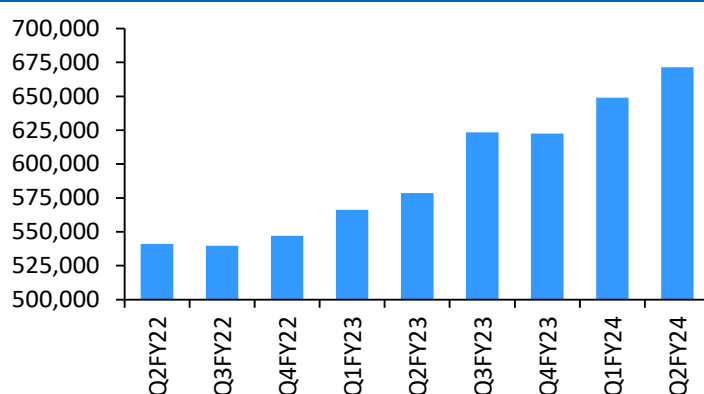
Source: Company, DART

Exhibit 6: Net revenue grew QoQ/YoY

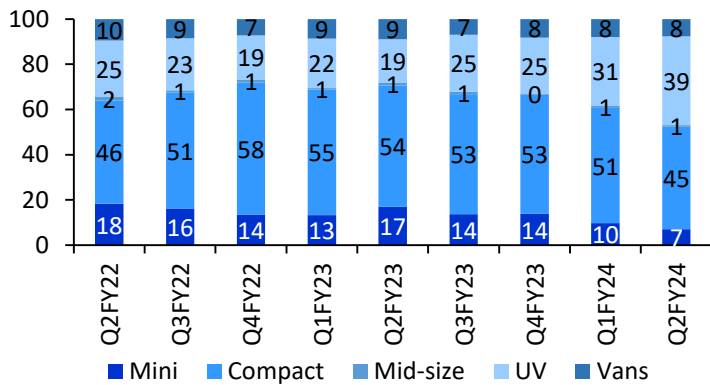


Source: Company, DART

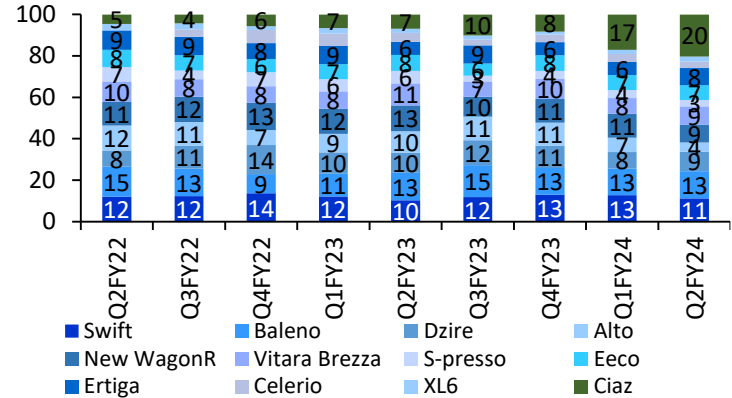
Exhibit 7: Net ASP(Rs/unit) On The Rise



Source: Company, DART

Exhibit 8: Maruti Segment Mix


Source: Company, DART

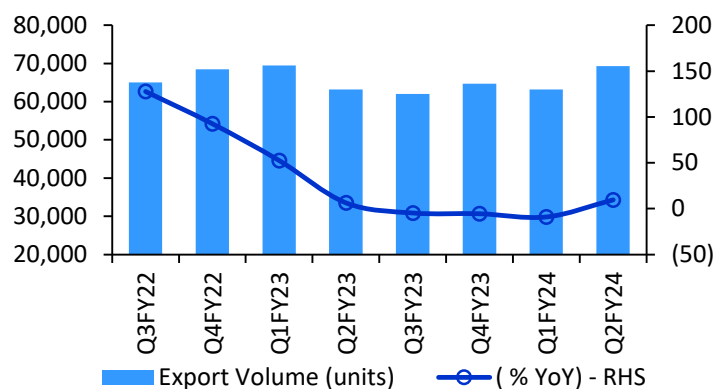
Exhibit 9: Maruti Model Mix


Source: Company, DART

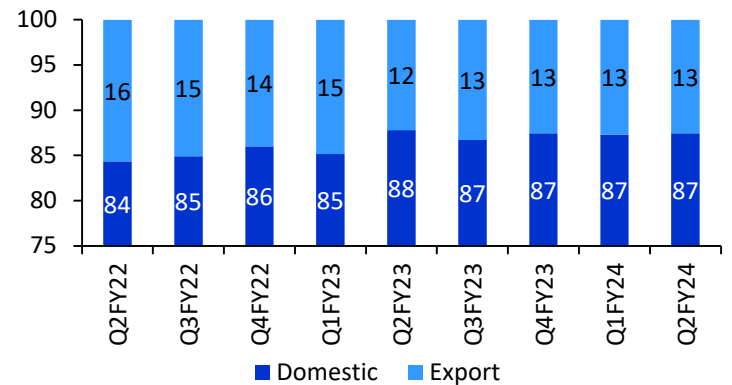
Expanding presence in export

Exports have improved notably in past two years led by strong demand in African and Latin American markets. MSIL has expanded the network by increasing its own distributors and utilizing Suzuki and Toyota's global networks. The company is looking to export Grand Vitara in 60 countries. Planned capex for FY24 is Rs.80bn and majority of capex will be towards expansion of Kharkhoda (Haryana) plant. There is a room for capacity addition of 1mn units (5 plants of 2.5L units capacity). Going ahead company plans 3-fold rise in exports and targets 1.2 mn by 2031.

Although 1H export volume was impacted due to production constraint and slowdown of its key market, we expect a sharp revival in volume in coming quarter. The export for Fronx has been started for Latin America, Middle east and Africa.

Exhibit 10: Maruti Export trend


Source: Company, DART

Exhibit 11: Maruti geography Mix


Source: Company, DART

MSIL to acquire SMG- Bring efficiencies

Company has approved the acquisition of 1.23 bn equity shares (4.1% dilution) of Rs 10/- owned by Suzuki Motor Corporation, Japan ("SMC"), for a total purchase consideration of Rs 128.41 bn (Per share value Rs. 10,420.85. Integration of SMG will increase the efficiency and cost cutting and enhanced skill set.

Given the scale and complexity of production with multiple powertrains, management decided that with the integration of SMG, it will increase the efficiency and cost cutting and enhanced skill set for enhanced production related activities under MSIL. EV production will also be part of MSIL. This acquisition will not have any impact on production or profits in the company (increase in EBITDA would be offset by higher depreciation).

In order to neutralize the impact of dilution the expected EBIT margin should have to improve by 40 bps from current estimates (which believe would be supported by the synergy and efficiency benefit).

Margin levers in place

Management is aggressively working towards bringing down the fixed cost, model development cost and increasing localization levels. Premiumisation (UVs, exports and high end variant cars) and operating leverage will be key margin driver going ahead. Expect some increase in steel prices (50% weight in commodity basket) in 3Q, however, precious metal prices continue to soften. JPY continues to depreciate against INR and the dollar, some benefits may come in 3Q.

Exhibit 12: Summary of quarterly performance

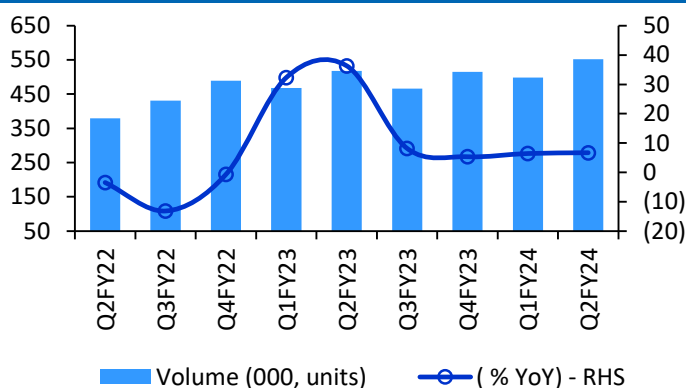
Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	FY24E
Total Volume	353,614	379,541	430,668	488,830	467,931	517,395	465,911	514,927	498,030	552,055	2,159,598
% YoY	362	(3)	(13)	(1)	32	36	8	5	(4)	18	10
ASP	502,545	541,151	539,766	547,020	566,319	578,490	623,387	622,379	649,095	671,348	666,556
% YoY	(6)	13	14	12	13	7	15	14	15	16	12
Net sales	177,707	205,389	232,460	267,400	264,998	299,308	290,443	320,480	323,269	370,621	1,439,493
% YoY	332.7	9.6	(0.9)	11.3	49.1	45.7	24.9	19.9	22.0	23.8	22.5
% QoQ	(26.0)	15.6	13.2	15.0	(0.9)	12.9	(3.0)	10.3	0.9	14.6	
Materials	132,905	155,770	175,031	196,667	197,702	218,801	211,058	234,874	235,317	261,690	1,033,560
% sales	74.8	75.8	75.3	73.5	74.6	73.1	72.7	73.3	72.8	70.6	71.8
Employee cost	10,643	9,622	9,699	10,258	11,584	11,327	12,010	11,130	14,609	13,127	55,056
% sales	6.0	4.7	4.2	3.8	4.4	3.8	4.1	3.5	4.5	3.5	3.8
Other op cost	25,948	31,448	32,140	36,207	36,591	41,491	39,044	40,973	43,513	47,962	180,337
% sales	14.6	15.3	13.8	13.5	13.8	13.9	13.4	12.8	13.5	12.9	12.5
EBITDA (Rs mn)	8,211	8,549	15,590	24,268	19,121	27,689	28,331	33,503	29,830	47,842	170,540
% YoY	(58.8)	4.1	82.4	55.7	(21.2)	44.8	2.3	18.3	56.0	72.8	55
Margin (%)	4.6	4.2	6.7	9.1	7.2	9.3	9.8	10.5	9.2	12.9	11.8

Source: Company, DART

Dealership strength provides an edge over peers

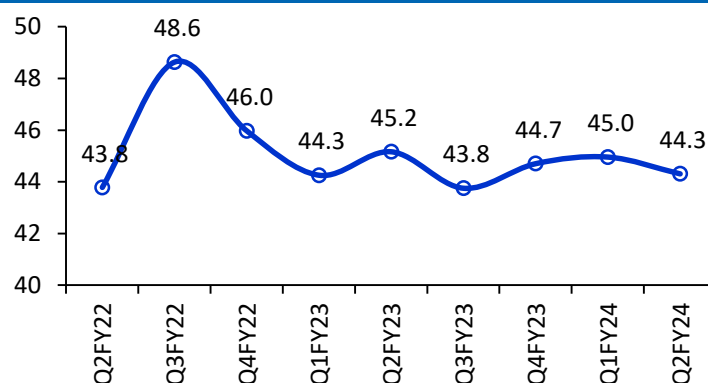
With the robust network of dealers, Maruti is expected to do better than competitors on all fronts (resumption of supply and market share). Dealer survival is the key during this crisis and service revenue will help dealers to sail through this tough time. We believe MSIL's dealers are in a better position with more than 50% market share in the PV market. Over the years MSIL has developed such a business model for dealers which helps them to make some money even if they sell vehicles in loss by cross selling other products such as insurance, spare parts, accessories etc.

Exhibit 13: Volume grew YoY

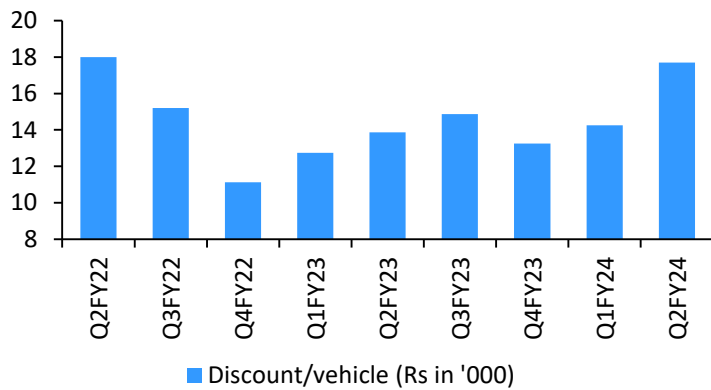


Source: Company, DART

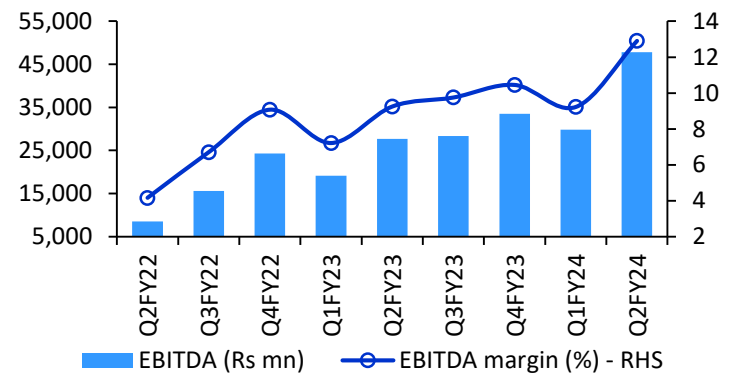
Exhibit 14: Maruti PV market share



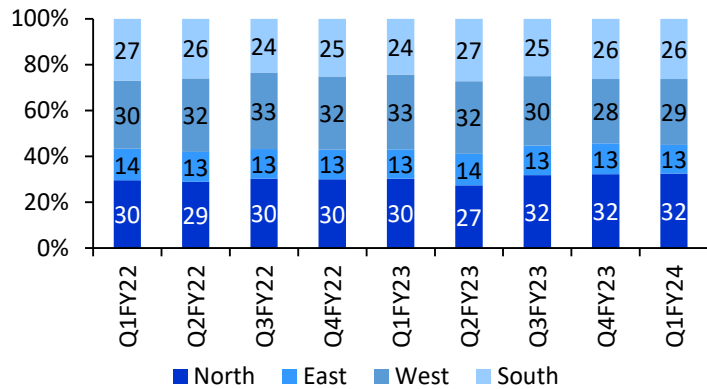
Source: Company, DART

Exhibit 15: Discount/vehicle has inched up


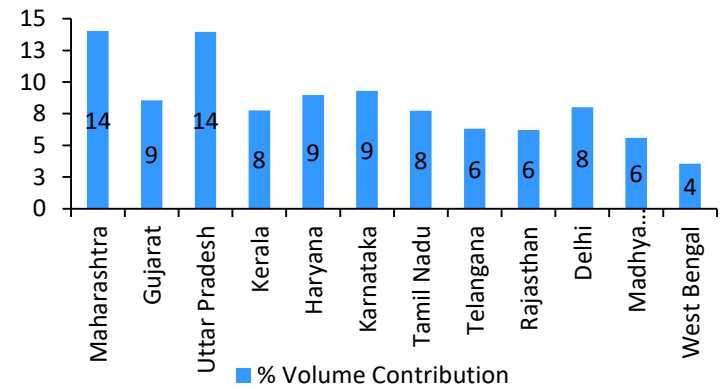
Source: Company, DART

Exhibit 16: EBITDA margin expanded QoQ


Source: Company, DART

Exhibit 17: ZONE wise volume share (%)


Source: Company, DART

Exhibit 18: State wise volume share for Q1FY24 (%)


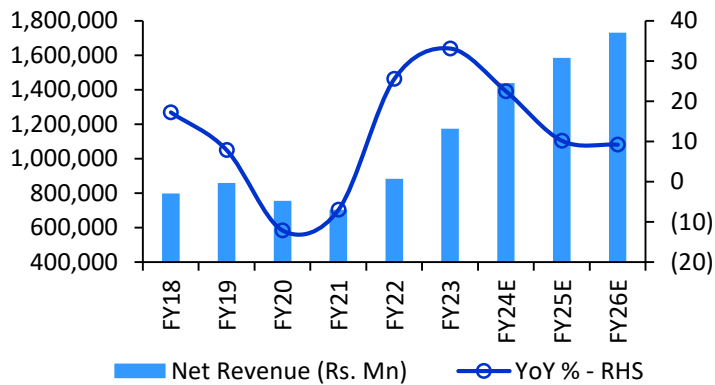
Source: Company, DART

Earnings call KTAs

- **Outlook** – The company is confident to outperform industry growth (company expectation of 10% vs 5% Industry growth in FY24) led by new launches and increasing share in the UVs segment. Festive season growth is 18% YoY till date. Export volume is to be as same as FY23. The rural market continues to be reasonably in good shape and is growing slightly faster than the urban market (rural market is at 11% vs urban market at 10%). As semiconductor supply is improving, it has led to a reduction in the waiting period of models, order book has reduced from 400k cars to 250k cars only as of date (largely for new SUVs). Wholesales volume in 2Q was 466k vehicle vs 430k retail in 2Q.
- **Overall Demand is stable** at current level. Central and southern India is doing fairly well while Eastern India is showing weakness. Maharashtra volume was affected due to monsoon constraints. Although the entry level car segment witnessed a decline due to fall in first-time buyers, and is expected to see a comeback due to shift in consumer preference regarding portability, and changes in demographics, regulatory and income levels.
- **Margin/price hikes-** 2Q margin improved due to softening commodity price, favorable forex movement, better product mix and operating leverage. Promotional expenses are slightly higher due to new launches. Expect some increase in steel prices (50% weight in commodity basket) in 3Q, however, precious metal prices continue to soften. An increase in production capacity may affect the operating margin. JPY continues to depreciate against INR and the dollar, some benefits may come in 3Q.
- **Market Share** - The Company has taken a leadership position in the SUV segment led by a strong line up (Grand Vitara, Jimny, FRONX, and New Brezza). The company has achieved a market share of ~23.3% in the SUV segment.
- **Order book-** The company has an order book of 250k units where 123k units are for CNG vehicles. The order book for Ertiga stands at 73.7k units followed by high waiting for Brezza, Grand Vitara, Fronx, and Jimny.
- **Export volume-** Export revenue stood at Rs. 43.33 bn in 2Q Vs Rs 37.60bn in 1Q. The company is continuously expanding its product portfolio across countries. The Company continues to be the largest exporter of Passenger Vehicles from India with exports of ~69,324 units (+9.7% YoY). The export for Jimny 5-Door has been started for Latin America, the Middle East and Africa. Exports will be at the same level as last year and expect to grow later. Going ahead company plans 3-fold rise in exports and targets 1.2 mn by 2031. Export ASP is marginally higher than domestic. Baleno, Dzire and S-presso are top 3 model in exports.
- **Demand for CNG vehicles-** The Company has sold 118k+ units in 2Q. A jump has been witnessed in the production and sale of CNG Vehicles. The CNG penetration has gone up by 4% (from 20% in Q2FY23 to 24% in Q2FY24). A major change has been made in the market which shows the customer needs and demand.
- **Capex-** Planned capex for FY24 is Rs.80bn and the majority of capex will be towards expansion of the Kharkhoda plant for capacity addition of 1mn unit, and is under progress. All plans are running on schedule. The finalizing of 2nd site (1mn expansion) is a work in progress and the target is to get the positioning of land by the end of this financial year, and expects to start the work in FY25. The company has a plan to have a total of 38 models by 2030 vs 17 models now.
- **Discounts-** The discounts stood at Rs 17700/ unit in Q2 VS Rs.16214/unit in Q1. 3Q discounts would be higher as usual.
- **Industry vehicle mix-** The share of CNG vehicles stands at 15%, Diesel vehicles continue to decline and stands at 15% vs 17%. The Hybrid vehicles are witnessing good traction and are at 2%
- **EV Plans-** The EV plans are as per schedule and will start production in FY25. Company plans to get 6 EV Models by 2030-2031.

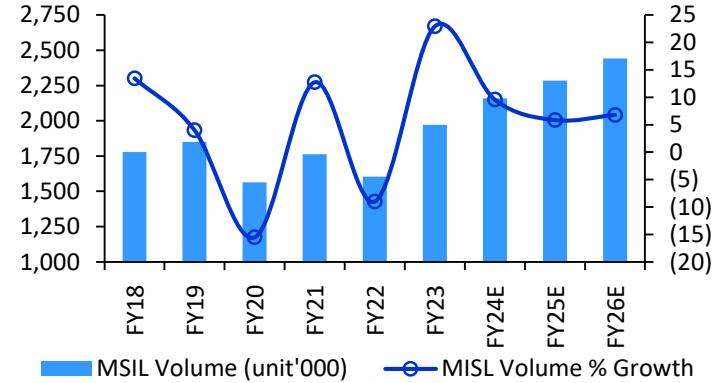
Annual charts

Exhibit 19: Revenue on the raise



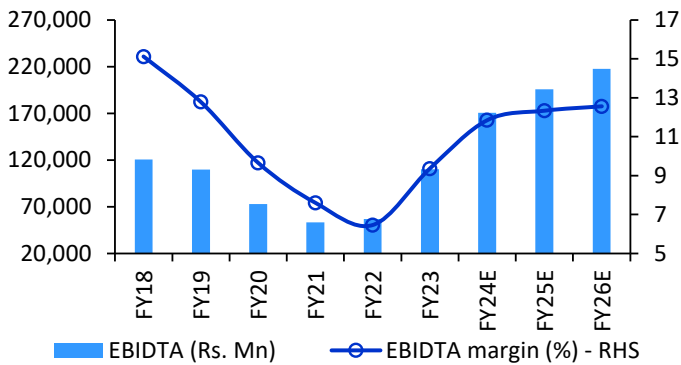
Source: Company, DART

Exhibit 20: MSIL Volume (7% CAGR over FY23-26E)



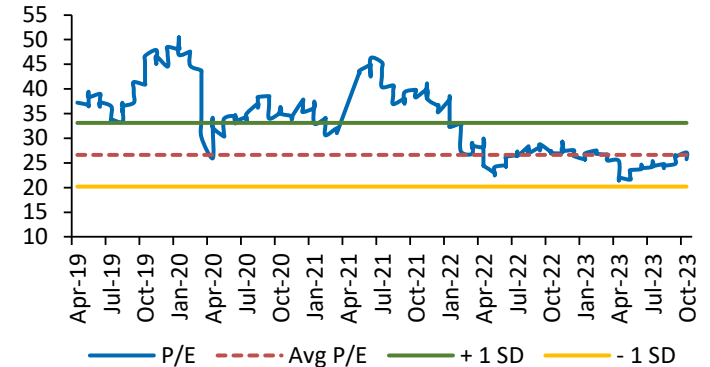
Source: Company, DART

Exhibit 21: Margin to improve on operating leverage



Source: Company, DART

Exhibit 22: 1 year forward P/E



Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Revenue	1,175,229	1,439,493	1,586,186	1,732,220
Total Expense	1,065,152	1,268,954	1,390,518	1,514,635
COGS	862,435	1,033,560	1,135,714	1,240,275
Employees Cost	46,051	55,056	59,460	65,406
Other expenses	156,666	180,337	195,344	208,954
EBIDTA	110,077	170,540	195,668	217,584
Depreciation	28,233	33,004	38,441	42,191
EBIT	81,844	137,536	157,226	175,393
Interest	1,866	1,200	1,200	1,200
Other Income	21,613	26,823	28,442	33,470
Exc. / E.O. items	0	0	0	0
EBT	101,591	163,159	184,468	207,663
Tax	21,099	42,421	47,962	53,993
RPAT	80,492	120,737	136,506	153,669
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	80,492	120,737	136,506	153,669

Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	1,510	1,570	1,570	1,570
Minority Interest	0	0	0	0
Reserves & Surplus	602,310	683,204	773,299	873,187
Net Worth	603,820	684,774	774,869	874,757
Total Debt	0	0	0	0
Net Deferred Tax Liability	(3,411)	(2,911)	(2,411)	(1,911)
Total Capital Employed	600,409	681,863	772,458	872,846

Applications of Funds

Net Block	188,139	245,135	261,694	264,503
CWIP	28,081	18,081	8,081	(1,919)
Investments	436,564	456,564	476,564	496,564
Current Assets, Loans & Advances	184,793	288,381	387,995	513,456
Inventories	42,838	67,045	78,223	90,170
Receivables	32,958	47,326	56,494	66,441
Cash and Bank Balances	377	26,399	92,233	182,629
Loans and Advances	299	28,790	31,724	34,644
Other Current Assets	67,321	67,821	68,321	68,571
Less: Current Liabilities & Provisions	237,168	326,298	361,876	399,758
Payables	117,804	205,119	228,578	253,131
Other Current Liabilities	119,364	121,179	133,297	146,627
<i>sub total</i>				
Net Current Assets	(52,375)	(37,917)	26,119	113,698
Total Assets	600,409	681,863	772,458	872,846

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	26.6	28.2	28.4	28.4
EBIDTA Margin	9.4	11.8	12.3	12.6
EBIT Margin	7.0	9.6	9.9	10.1
Tax rate	20.8	26.0	26.0	26.0
Net Profit Margin	6.8	8.4	8.6	8.9
(B) As Percentage of Net Sales (%)				
COGS	73.4	71.8	71.6	71.6
Employee	3.9	3.8	3.7	3.8
Other	13.3	12.5	12.3	12.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	43.9	114.6	131.0	146.2
Inventory days	13	17	18	19
Debtors days	10	12	13	14
Average Cost of Debt				
Payable days	37	52	53	53
Working Capital days	(16)	(10)	6	24
FA T/O	6.2	5.9	6.1	6.5
(D) Measures of Investment				
AEPS (Rs)	256.3	384.5	434.7	489.4
CEPS (Rs)	346.3	489.6	557.2	623.8
DPS (Rs)	230.7	126.9	147.8	171.3
Dividend Payout (%)	90.0	33.0	34.0	35.0
BVPS (Rs)	1923.0	2180.8	2467.7	2785.9
RoANW (%)	14.1	18.7	18.7	18.6
RoACE (%)	14.4	19.0	18.9	18.8
RoAIC (%)	14.7	21.9	23.5	25.6
(E) Valuation Ratios				
CMP (Rs)	10561	10561	10561	10561
P/E	41.2	27.5	24.3	21.6
Mcap (Rs Mn)	3,316,060	3,316,060	3,316,060	3,316,060
MCap/ Sales	2.8	2.3	2.1	1.9
EV	3,274,683	3,238,661	3,162,827	3,062,431
EV/Sales	2.8	2.2	2.0	1.8
EV/EBITDA	29.7	19.0	16.2	14.1
P/BV	5.5	4.8	4.3	3.8
Dividend Yield (%)	2.2	1.2	1.4	1.6
(F) Growth Rate (%)				
Revenue	33.1	22.5	10.2	9.2
EBITDA	93.1	54.9	14.7	11.2
EBIT	180.8	68.0	14.3	11.6
PBT	121.7	60.6	13.1	12.6
APAT	113.7	50.0	13.1	12.6
EPS	113.7	50.0	13.1	12.6

E – Estimates

Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
Profit before tax	101,591	163,159	184,468	207,663
Depreciation & w.o.	28,233	33,004	38,441	42,191
Net Interest Exp	1,866	1,200	1,200	1,200
Direct taxes paid	(25,921)	(41,921)	(47,462)	(53,493)
Change in Working Capital	24,597	30,765	11,797	12,817
Non Cash	0	0	0	0
(A) CF from Operating Activities	130,366	186,206	188,445	210,378
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(87,164)	(80,000)	(45,000)	(35,000)
Free Cash Flow	43,202	106,206	143,445	175,378
(Inc.)/ Dec. in Investments	(69,931)	(30,000)	(30,000)	(30,000)
Other	0	0	0	0
(B) CF from Investing Activities	(157,095)	(110,000)	(75,000)	(65,000)
Issue of Equity/ Preference	0	60	0	0
Inc./(Dec.) in Debt	0	0	0	0
Interest exp net	(1,866)	(1,200)	(1,200)	(1,200)
Dividend Paid (Incl. Tax)	(72,443)	(46,298)	(53,932)	(62,499)
Other	71,052	(2,746)	7,521	8,717
(C) CF from Financing	(3,257)	(50,184)	(47,611)	(54,982)
Net Change in Cash	(29,986)	26,022	65,834	90,396
Opening Cash balances	30,362	377	26,399	92,233
Closing Cash balances	377	26,399	92,233	182,629

E – Estimates

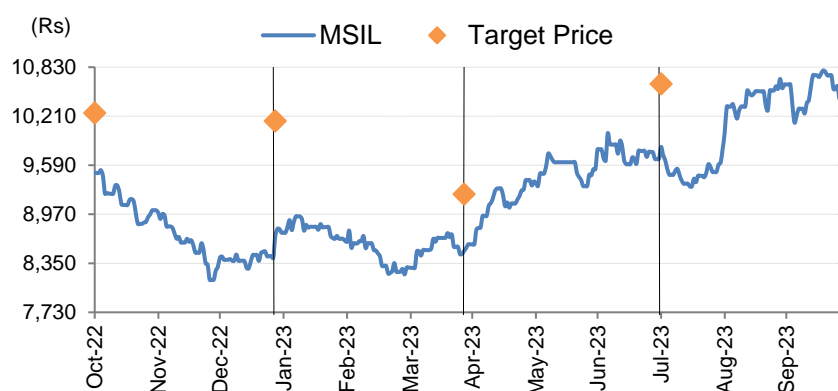
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Oct-22	Accumulate	10,250	9,493
Jan-23	BUY	10,150	8,699
Apr-23	Accumulate	9,224	8,507
Jul-23	Accumulate	10,619	9,821

*Price as on recommendation date

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