



Maruti Suzuki India Ltd

All around beat, Market share gains & margin improvement on the cards!

Exceptional beat on the realization front led by an increase in the UV share (~19% in Q2FY23 to ~25% in Q3FY23). Since last consecutive three quarters, EBITDA margin is trending higher, operating leverage benefits are clearly visible across line items. EBITDA per unit is at 17 quarters high (Rs60,808/unit). Substantial increase in other income (+162% YoY to Rs8.6bn) pushed up below EBITDA line items higher. Overall, a beat across all parameters. **We are in the opinion that Maruti owing to 1) the combination of four SUVs, 2) strong order bookings of 363K with 1/3rd bookings for higher realization new models, 3) benefits of new RDE norms (no diesel presence), 4) offering bouquet of CNG models, and 5) change in the perception after it started offering safety & premium features should provide the required uplift in gaining back some of its lost market share. We maintain long-term positive view on Maruti Suzuki and maintain BUY rating, roll-over to FY25e (from Sep '24e) with a target price of 10,525 (24x FY25e EPS of Rs 439).**

Reiterating - SUVs to not only add market share, but also realization & margins.

- Maruti now has four SUV models in its kitty (New Brezza, Grand Vitara, Fronx & Jimny), 1-2 more launches expected. These models will give full year benefits starting FY24e onwards
- It already started witnessing improvement in the UV market share, which climbed higher from 17.0% in Q4FY22 to 19.8% in Q3FY23, a gain of about 283bps. We project the UV contribution to increase atleast by ~300bps to 23.6% of total volumes from FY22 to FY25e.
- Expect volume growth momentum to continue going ahead for Maruti, as we do not foresee any new major launches coming from large competitors.
- SUVs will not only lift up volumes & realization, but also margins in the coming years, as these products have better profitability than traditional ones. ASPs will definitely improve, in our view.

Premium & safety features, RDE, and wide range of CNG to improve sales further

- Maruti was lagging in safety and premium features in a car, however, that has changed now. It started offering premiumization inside & outside with safety and keeping its value proposition intact. This can pull young crowd towards Maruti's showrooms.
- Upcoming RDE norms from Apr '23 is likely to increase diesel car prices further for end consumers.
- Maruti would be ready before time with all upcoming regulations viz. RDE, CAFÉ and six airbags. On CAFÉ, it already has the least CO2 emission as compared to any player.
- While, on the other size we trust that the CNG price surge is temporary due to the ongoing war. The combination of softening gas prices (in discussion with GoI), number of CNG stations increasing from about 4.5K to 8K in two years, Maruti's big line of CNG offering, and running cost advantage of CNG over Petrol/Diesel will keep demand for CNG vehicles higher at least in the near future.
- Hatchbacks will also see growth as rural and exports started flashing positive signals.
- We estimate FY23e volumes at ~1.95mn units with volume growth of 9% CAGR FY23e-FY25e. Expect outperformance vis-a-vis the industry & market share gains for Maruti.**

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY23e	Var. (%)
Volumes (No)	465,911	430,668	8.2	517,395	(10.0)	465,911	-
Realization (Rs)	623,387	539,766	15.5	578,490	7.8	587,168	6.2
EBITDA/unit (Rs)	60,808	36,200	68.0	53,516	13.6	55,816	8.9
Revenues	290,443	232,460	24.9	299,308	(3.0)	273,568	6.2
Gross margin (%)	27.3	24.7	263 bps	26.9	43 bps	-	-
EBITDA	28,331	15,590	81.7	27,689	2.3	26,005	8.9
EBITDA margin (%)	9.8	6.7	305 bps	9.3	50 bps	9.5	25 bps
Other income	8,608	3,280	162.4	6,125	40.5	-	-
PBT	29,542	12,218	141.8	26,283	12.4	-	-
Taxes paid	6,029	2,105	186.4	5,668	6.4	-	-
Effective tax rate (%)	20.4	17.2	318 bps	21.6	(116) bps	-	-
Reported PAT	23,513	10,113	132.5	20,615	14.1	17,092	37.6
PAT margin (%)	8.1	4.4	375 bps	6.9	121 bps	6.2	185 bps

Source: Company, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	703,325	(7.0)	53,453	7.6	42,297	(25.1)	140	8.5	8.3	47.5	29.5
FY22	882,956	25.5	57,012	6.5	37,663	(11.0)	125	7.1	7.1	59.0	31.5
FY23e	1,174,953	33.1	109,109	9.3	78,648	108.8	260	13.8	13.2	33.4	19.7
FY24e	1,359,221	15.7	152,328	11.2	110,569	40.6	366	17.2	16.1	23.8	13.6
FY25e	1,522,173	12.0	181,805	11.9	132,477	19.8	439	17.9	16.7	19.8	10.9

Source: Company, SMIFS research estimates

Rating: **Buy** Upside/(Downside): **21.0%**
 Current Price: **8,699** Target Price: **10,525**

| Earlier recommendation

Previous Rating:	Buy
Previous Target Price:	9,739

| Market data

Bloomberg:	MSIL IN
52-week H/L (Rs):	9,769/6,540
Mcap (Rs bn/USD bn):	2,628/32.2
Shares outstanding (mn):	302
Free float:	44.0%
Daily vol. (3M Avg):	0.6mn
Face Value (Rs):	5

Source: Bloomberg, SMIFS research

| Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	56.4	56.4	56.4	56.4
FIs	21.5	21.8	21.9	22.6
DIs	18.2	18.1	18.0	16.2
Public/others	3.9	3.7	3.7	4.8

Source: BSE

| Promoters pledging (%)

Promoters pledged shares	0.0	0.0	0.0	0.0
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Source: BSE

| Price performance (%) *

	1M	3M	12M	36M
Nifty 50	1.8	2.2	5.7	47.9
NIFTY 500	2.3	1.3	4.6	52.6
MSIL	6.8	-0.8	8.1	22.1

*As on 24th Jan 2023; Source: AceEquity, SMIFS research

Amit Hiranandani
 Sector Lead - Automobile
 9619848422
 amit.hiranandani@smifs.co.in

Awanish Chandra
 Executive Director
 8693822293
 awanish.chandra@smifs.com

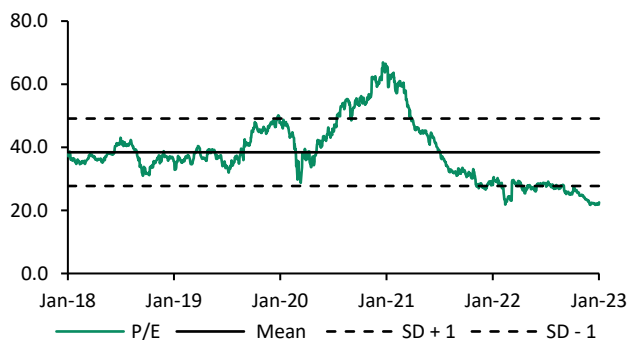
More positives for margin improvement, but will restrict to touch its previous peak years

- Premiumization, increase in sales from better margin SUVs (contribution to increase atleast by ~300bps to 23.6% of total volumes from FY22 to FY25e) & higher variant models, commodity softness benefits along with operating leverage will push-up margins higher.
- We estimate an EBITDA margin of 9.3% in FY23e is feasible and to gradually improve further to 11.9% level by FY25e. Maruti achieved ~15/16% level margins in its golden years FY16/17, but comparatively commodity prices climbed up sharply over the period, which can restrict Maruti's margin to touch its previous peak.

Outlook and Valuations

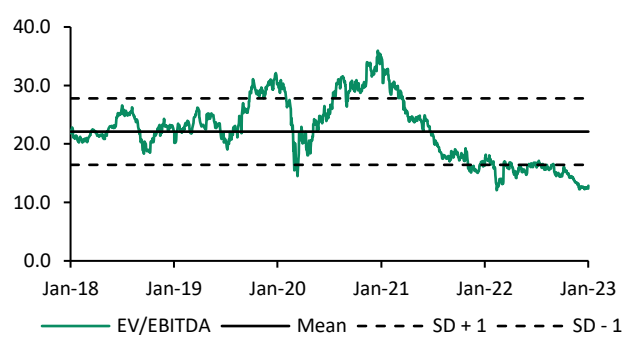
- ✓ **We maintain long-term positive view on Maruti** as renewed efforts, especially in the SUV space, resulting in strong response for recently launched models. The aim of achieving dominant position & benefits from new SUV launches should support higher than industry growth in the coming years. This will not only lift up volumes & realization, but also margins in the coming years, as SUVs are better profitable products. Supply is the only challenge we see, as its visibility is still unpredictable.
- ✓ Marginally tweaked estimates upwards as SUVs pushed up realization more than estimated. Supply & demand improvement to lift volumes little better than earlier projection. Higher operating leverage along with a favourable mix to yield in healthier margins ahead. Hence, EPS upgraded by 15%/12%/11% in FY23e/FY24e/FY25e respectively. Reduced multiple from 27x to 24x due to increase in the competitive intensity & roll-over from Sep '24e to FY25e. **Maintained BUY recommendation, the company's fair value is Rs10,525 per share (24x FY25e EPS of Rs 439).**

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS research

Changes in estimates

Rs mn	New estimates			Old estimates			Change (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Volumes (No)	1,955,337	2,172,465	2,324,795	1,921,147	2,138,683	2,293,430	1.8%	1.6%	1.4%
Revenue	1,174,953	1,359,221	1,522,173	1,109,147	1,284,636	1,440,977	5.9%	5.8%	5.6%
Gross profit	313,816	376,624	429,387	296,240	355,958	406,483	5.9%	5.8%	5.6%
Gross margin (%)	26.7	27.7	28.2	26.7	27.7	28.2	0 bps	(0) bps	(0) bps
EBITDA	109,109	152,328	181,805	101,256	143,334	171,517	7.8%	6.3%	6.0%
EBITDA margin (%)	9.3	11.2	11.9	9.1	11.2	11.9	16 bps	5 bps	4 bps
PAT	78,648	110,569	132,477	68,390	98,799	119,128	15.0%	11.9%	11.2%
EPS (Rs)	260	366	439	226	327	394	15.2%	11.9%	11.3%

Source: Company, SMIFS research estimates

Q3FY23 – Key takeaways from the management call

Demand and supply

- Maruti is aiming for a leadership position in the SUV space post launching its two new SUVs. The new models will be available in the market from early FY24. The company has 363K unit bookings with 1/3rd for new launches.
- On domestic demand, demand is healthy with rural continues to remain strong contributing 44-45%, the management is happy with bookings of new launches and should outperform the industry growth in FY24e. The response is particularly good for the Jimny.
- The industry body is in touch with Govt on CNG fuel prices, but unsure about how much time the government will take for acceptance.
- Maruti is very optimistic about mid-to-long term growth prospects of hatchbacks. The car penetration is very less and people's 1st car preference is generally a hatchback. There is some growth in it, but segment share has been coming down. Hopeful of growth in FY24 as well.
- On exports, the market is giving good signals.
- Blended realization shoots up as SUV contribution inched-up. ASPs will continue to go up definitely.
- On supply situation, the company has limited visibility of one month. It's unpredictable for mid-to-long term.

Margins

- Gross margins improved driven by the combination of better mix, commodity & exchange benefits, cost reduction efforts, etc.
- Some commodity benefits could come in Q4FY23, but difficult to predict FY24. Maruti has hedge position on metals.

Alternate fuel technologies

- Suzuki plans to invest Rs100bn for EVs and batteries in India. Launched concept electric SUV, which gives 550 KMs range, will get launched by 2025.
- Flex fuel prototype showcased – WagonR, will introduce by 2025. It will reduce emissions substantially vis-à-vis petrol car.
- Maruti now has a complete range of portfolio viz. Hybrid, CNG, Ethanol, Electric, etc.

New regulations

- On RDE norms, Maruti is comfortably positioned to meet and does not see much cost increase. There would be a sizable impact on diesel cars for the industry.
- On CAFÉ norms, Maruti has the least fleet CO2 in the entire Indian car industry despite all global players' presence in the domestic market. This will get better further.
- On six airbags norms, there will be a cost impact of Rs 20,000 between existing two, and six airbags.

Other highlights

- Average discounts increased to Rs 18,291 in Q3FY23 from Rs 13,840 in Q2FY23.

- Royalty paid was 3.9% as contribution from new vehicles were higher.
- Retail sales in Q3FY23 was 4,80,000 units, higher than wholesales.
- 23-25% Grand Vitara's bookings are for the strong hybrid version. Some challenges persist due to semiconductors.

Quarterly financials, operating metrics & key performance indicators

Fig 3: Quarterly Financials

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	240,237	177,707	205,389	232,460	267,400	264,998	299,308	290,443
Raw Materials	177,509	132,905	155,770	175,031	196,667	197,702	218,801	211,058
Employee Costs	9,003	10,643	9,622	9,699	10,258	11,584	11,327	12,010
Other Expenditure	33,814	25,948	31,448	32,140	36,207	36,591	41,491	39,044
EBITDA	19,911	8,211	8,549	15,590	24,268	19,121	27,689	28,331
Depreciation	7,410	7,432	7,561	6,400	6,472	6,514	7,226	7,101
Interest	324	222	225	252	560	274	305	296
Other Income	898	5,078	5,227	3,280	4,744	885	6,125	8,608
PBT	13,075	5,635	5,990	12,218	21,980	13,218	26,283	29,542
Tax	1,414	1,227	1,237	2,105	3,591	3,090	5,668	6,029
Tax rate (%)	10.8	21.8	20.7	17.2	16.3	23.4	21.6	20.4
Reported PAT	11,661	4,408	4,753	10,113	18,389	10,128	20,615	23,513
Adjusted PAT	11,661	4,408	4,753	10,113	18,389	10,128	20,615	23,513
YoY Growth (%)								
Revenue	32.0	332.7	9.6	(0.9)	11.3	49.1	45.7	24.9
EBITDA	28.8	(195.1)	(55.8)	(30.0)	21.9	132.9	223.9	81.7
PAT	(9.7)	(276.7)	(65.3)	(47.9)	57.7	129.8	333.7	132.5
QoQ Growth (%)								
Revenue	2.4	(26.0)	15.6	13.2	15.0	(0.9)	12.9	(3.0)
EBITDA	(10.6)	(58.8)	4.1	82.4	55.7	(21.2)	44.8	2.3
PAT	(39.9)	(62.2)	7.8	112.8	81.8	(44.9)	103.5	14.1
Margin (%)								
RMC/revenue (%)	73.9	74.8	75.8	75.3	73.5	74.6	73.1	72.7
Gross margin (%)	26.1	25.2	24.2	24.7	26.5	25.4	26.9	27.3
Employee cost/revenue (%)	3.7	6.0	4.7	4.2	3.8	4.4	3.8	4.1
Other expenses/revenue (%)	14.1	14.6	15.3	13.8	13.5	13.8	13.9	13.4
EBITDA margin (%)	8.3	4.6	4.2	6.7	9.1	7.2	9.3	9.8
PAT margin (%)	4.9	2.5	2.3	4.4	6.9	3.8	6.9	8.1

Source: Company, SMIFS research

Fig 4: Key Assumptions

Operating Details	FY20	FY21	FY22	FY23e	FY24e	FY25e
Domestic sales volume						
Passenger cars	1,060,644	959,658	932,512	1,100,364	1,188,393	1,247,813
Utility vehicles	235,298	229,101	290,701	366,865	440,238	493,066
Vans	118,404	105,081	108,345	125,030	135,033	141,784
LCVs	21,778	29,556	33,812	34,488	38,627	41,331
Sales to other OEMs	25,002	38,326	48,907	66,024	75,928	82,002
Total domestic volume sales	1,461,126	1,361,722	1,414,277	1,692,772	1,878,218	2,005,996
Growth (%)	(16.7)	(6.8)	3.9	19.7	11.0	6.8
Total exports volume sales						
	102,171	96,139	238,376	262,565	294,247	318,799
Growth (%)	(6.0)	(5.9)	147.9	10.1	12.1	8.3
Total volume sales						
	1,563,297	1,457,861	1,652,653	1,955,337	2,172,465	2,324,795
Growth (%)	(16.1)	(6.7)	13.4	18.3	11.1	7.0
Total revenues (Rs mn)						
	756,106	703,325	882,956	1,174,953	1,359,221	1,522,173
Blended realization (Rs)						
	483,661	482,436	534,266	600,895	625,658	654,756
Growth (%)	4.7	(0.3)	10.7	12.5	4.1	4.7
EBITDA/unit (Rs)						
	46,713	36,665	34,497	55,800	70,118	78,202
Growth (%)	(20.9)	(21.5)	(5.9)	61.8	25.7	11.5

Source: Company, SMIFS research estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Revenues	703,325	882,956	1,174,953	1,359,221	1,522,173
Raw Materials	508,172	660,373	861,136	982,596	1,092,786
% of sales	72.3	74.8	73.3	72.3	71.8
Personnel	34,029	40,222	47,697	52,085	54,689
% of sales	4.8	4.6	4.1	3.8	3.6
Other Expenses	107,671	125,349	157,011	172,211	192,894
% of sales	15.3	14.2	13.4	12.7	12.7
EBITDA	53,453	57,012	109,109	152,328	181,805
Other Income	29,464	17,935	20,812	22,927	25,234
Depreciation & Amortization	30,315	27,865	28,409	32,934	36,705
EBIT	52,602	47,082	101,511	142,321	170,333
Finance cost	1,008	1,259	1,322	1,469	1,572
Core PBT	22,130	27,888	79,377	117,925	143,527
Exceptional items	-	-	-	-	-
PBT	51,594	45,823	100,189	140,852	168,761
Tax-Total	9,297	8,160	21,541	30,283	36,284
Tax Rate (%) - Total	18.0	17.8	21.5	21.5	21.5
Reported PAT	42,297	37,663	78,648	110,569	132,477
Minority Interest	-	-	-	-	-
Adjusted PAT	42,297	37,663	78,648	110,569	132,477

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY21	FY22	FY23e	FY24e	FY25e
Growth Ratios (%)					
Net Sales	(7.0)	25.5	33.1	15.7	12.0
EBITDA	(26.8)	6.7	91.4	39.6	19.4
Net Profit	(25.1)	(11.0)	108.8	40.6	19.8
Margin Ratio (%)					
Gross Profit	27.7	25.2	26.7	27.7	28.2
EBITDA	7.6	6.5	9.3	11.2	11.9
EBIT	7.5	5.3	8.6	10.5	11.2
Core PBT	3.1	3.2	6.8	8.7	9.4
Adj. PAT	6.0	4.3	6.7	8.1	8.7
Return Ratios					
ROE	8.5	7.1	13.8	17.2	17.9
ROCE	8.3	7.1	13.2	16.1	16.7
Turnover Ratios (days)					
Gross Block Turnover (x)	2.3	2.8	3.3	3.2	3.1
Adj. OCF/ Adj. PAT (%)	207	44	168	132	124
Inventory	22	18	18	18	18
Debtors	8	7	7	7	7
Creditors	63	55	55	55	55
Cash Conversion Cycle	(32)	(30)	(30)	(30)	(30)
Solvency ratio (x)					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Gross Debt/EBITDA	0.1	0.1	0.0	0.0	0.0
Current ratio	1.1	1.0	0.9	0.9	1.0
Interest coverage ratio	52.2	37.4	76.8	96.9	108.4
Dividend					
DPS (Rs.)	45	60	65	79	88
Dividend Yield (%)	0.7	0.8	0.7	0.9	1.0
Dividend Payout (%)	32.1	48.1	25.0	21.5	20.0
Per share (Rs.)					
Basic EPS (reported)	140	125	260	366	439
Adjusted EPS	140	125	260	366	439
CEPS	240	217	354	475	560
BV	1,700	1,790	1,986	2,273	2,624
Valuation					
P/E	47.5	59.0	33.4	23.8	19.8
P/BV	5.1	4.9	4.4	3.8	3.3
EV/EBITDA	29.5	31.5	19.7	13.6	10.9
EV/Sales	2.2	2.0	1.8	1.5	1.3
Adj Mcap/Core PBT	70.7	64.2	27.0	17.5	13.7
Adj Mcap/Adj OCF	17.9	107.5	16.2	14.2	12.0

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Sources of funds					
Capital	1,510	1,510	1,510	1,510	1,510
Reserves & Surplus	512,158	539,350	598,336	685,133	791,115
Shareholders' Funds	513,668	540,860	599,846	686,643	792,625
Total Loan Funds	5,306	4,189	5,452	6,249	6,954
Other non-current liabilities	25,586	22,644	30,132	34,858	39,037
Total Liabilities	544,560	567,693	635,431	727,750	838,616
Application of funds					
Gross Block	311,711	322,116	396,085	460,862	516,160
Net Block	146,728	134,397	186,059	224,975	251,452
Capital WIP	11,923	26,391	25,052	23,997	26,810
Investments	417,867	407,633	448,396	493,236	542,560
Other non-current assets	28,442	38,711	47,168	52,506	57,225
Inventories	30,500	35,331	42,922	48,976	54,469
Sundry Debtors	12,766	20,301	22,001	25,452	28,503
Cash & Bank Balances	30,364	30,362	43,729	71,677	118,121
Other current Assets	23,018	40,817	50,842	57,853	64,401
Total Current Assets	96,648	126,811	159,494	203,958	265,494
Sundry Creditors	101,617	97,610	129,898	148,219	164,840
Other Current Liabilities	55,431	68,640	100,842	122,703	140,084
Total Current Liabilities	157,048	166,250	230,739	270,922	304,925
Net Current Assets	(60,400)	(39,439)	(71,245)	(66,963)	(39,431)
Total Assets	544,560	567,693	635,431	727,750	838,616

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Operating profit before WC changes					
Operating profit before WC changes	55,143	57,779	111,055	154,411	184,040
Net chg in working capital	43,352	(28,098)	44,204	23,055	18,371
Income taxes paid (net)	(10,107)	(11,769)	(21,541)	(30,283)	(36,284)
Cash flow from operating activities (a)	88,388	17,912	133,719	147,183	166,128
Adjusted OCF	87,380	16,653	132,397	145,714	164,556
Capital expenditure	(20,896)	(30,697)	(76,412)	(67,930)	(62,828)
Adj. Free Cash Flow	66,484	(14,044)	55,984	77,784	101,728
Cash flow from investing activities (b)	(72,839)	(1,890)	(70,237)	(94,408)	(91,866)
Debt	3,825	(1,069)	1,263	797	705
Interest and Lease expenses	(1,108)	(1,362)	(1,322)	(1,469)	(1,572)
Dividend Paid	(18,125)	(13,594)	(19,662)	(23,772)	(26,495)
Cash flow from financing activities (c)	(15,408)	(16,025)	(20,072)	(24,826)	(27,818)
Net chg in cash (a+b+c)	141	(3)	43,409	27,948	46,444

Source: Company, SMIFS research estimates

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Contact us:

SMIFS Limited. (<https://www.smifs.com/>)

Compliance Officer:

Sudipto Datta,

5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: +91 33 4011 5401 / +91 33 6634 5401

Email Id.: compliance@smifs.com

Mumbai Office:

206/207, Trade Centre, Bandra Kurla Complex (BKC), Bandra East, Mumbai – 400051, India

Contact No.: (D) +91 22 4200 5508, (B) +91 22 4200 5500

Email Id: institutional.equities@smifs.com

Kolkata Office:

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: (D) +91 33 6634 5408, (B) +91 33 4011 5400

Email Id: smifs.institutional@smifs.com
