

## Margins disappoint; valuations still stretched...

**About the stock:** Maruti Suzuki (MSIL) is the market leader in the domestic passenger vehicle (PV) space with market share pegged at ~48% and popular models being Alto, WagonR, Swift, Brezza, Baleno, Ertiga, etc. among others.

- Market leader in each sub-segment - cars (62.2%), UV (21.6%), vans (96.6%)
- Strong b/s; ~₹ 44,000 crore cash and investment on books as of FY21

**Q1FY22 Results:** The company posted a muted overall performance in Q1FY22.

- Total operating income declined 26% QoQ to ₹ 17,771 crore. Total sales volumes was at 3.5 lakh units with ASPs at ₹ 4.75 lakh/unit (up 1.9% QoQ)
- EBITDA margins fell 367 bps QoQ to 4.6% amid all-round cost increases
- Consequent PAT was lower by 62.2% QoQ to ₹ 441 crore

**What should investors do?** MSIL's stock price has grown at ~10% CAGR from ~₹ 4,400 levels in July 2016, heavily outperforming the Nifty Auto index in this time.

- We maintain **REDUCE** rating on stretched valuations, slow EV moves

**Target Price and Valuation:** We value MSIL at a revised target price of ₹ 6,400 i.e. 28x FY23E EPS (earlier target price ₹ 6,080)

### Key triggers for future price performance:

- Riding on pent-up demand, personal mobility tailwinds post-Covid, we expect 16.5%, 20.1% FY21-23E volume, net sales CAGR, respectively
- Elevated fuel prices, the government's push for CNG infra to accelerate CNG penetration and result in outsized gains for MSIL
- Any exciting product launch in UV to combat heightened competition
- Margins seen at 9% by FY23E on better operating leverage

**Alternate Stock Idea:** Apart from MSIL, in our OEM coverage we also like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,000



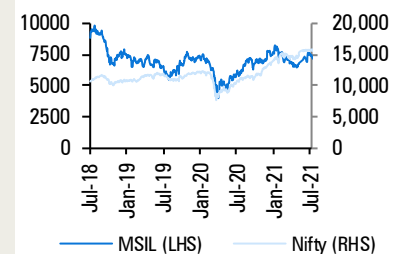
### Particulars

Particular	₹ crore
Market Capitalization	2,15,987
Total Debt (FY21P)	489
Cash & Investment (FY21P)	43,914
EV	1,72,562
52 week H/L (₹)	8400 / 6040
Equity capital	₹ 151 Crore
Face value	₹ 5

### Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	56.4	56.4	56.4	56.4
FII	21.9	23.1	23.1	22.9
DII	16.8	15.7	15.1	15.8
Other	5.0	4.9	5.4	5.0

### Price Chart



### Recent event & key risks

- MSIL reported muted results in Q1FY22. EBITDA margin at 4.6%
- **Key Risk:** (i) Sooner than expected return to double digit margins, (ii) Slower than expected EV industry offtake

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### Key Financial Summary

Key Financials	FY19	FY20	FY21P	5 year CAGR (FY16-21P)	FY22E	FY23E	2 year CAGR (FY21P-23E)
Net Sales	86,020.3	75,610.6	70,332.5	4.0%	89,111.6	1,01,387.0	20.1%
EBITDA	10,999.3	7,302.6	5,345.3	-9.9%	6,405.5	9,120.7	30.6%
EBITDA Margins (%)	12.8	9.7	7.6		7.2	9.0	
Net Profit	7,500.6	5,650.6	4,229.7	-1.5%	4,625.3	6,903.0	27.8%
EPS (₹)	248.3	187.1	140.0		153.1	228.5	
P/E	28.8	38.2	51.1		46.7	31.3	
RoNW (%)	16.3	11.7	8.2		8.5	11.7	
RoIC (%)	68.6	26.8	25.0		25.6	45.0	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Disappointing performance all round

- A 26% net sales decline sequentially comprised 28.2% volume decline to 3.53 lakh units (domestic down 32.5%, exports up 28.1%) and 1.9% rise in ASPs to ₹ 4.75 lakh/unit
- At the margin level, gross margins were down 90 bps QoQ while employee costs at ₹ 1,064 crore were sharply higher than previous run rate of ~₹ 900 crore/quarter
- PAT decline was accentuated by lower than anticipated other income of ₹ 508 crore

### Q1FY22 Earnings Conference Call highlights

- Enquiries in July are back at Q4FY21 levels while bookings are at ~80-85% of pre-Covid levels and >20% MoM. Retail sales thus far are at similar levels to last month. The recovery is broad-based across urban and rural regions
- Present orderbook is at ~1.7 lakh units, with network inventory at ~1.35 lakh units (~27-28 days)
- MSIL said its wide model portfolio & possibilities for reconfiguring model mix is helping mitigate semiconductor shortage for now. Globally, semiconductor manufacturers are wary of enhancing capacities due to doubts about durability of present demand surge
- MSIL has undertaken three price hikes in CY21TD – 1.6% in January, ~1.6% in April and another in July. It sounded caution over frequent price increases in relation to demand elasticity of its products
- Raw material costs rose 3.5% QoQ in Q1FY22 and the pressure is expected to be present in Q2FY22E as well, with some stability expected from H2FY22E onwards. The company settles steel prices with supplies in the same quarter while those of other metals are settled with a quarter's lag. MSIL upped its cost control efforts to mitigate higher input costs e.g. cut back on sales promotion expenses and administrative cost heads
- The company mentioned that it continues to work on a broad range of cleaner mobility technologies i.e., CNG, LNG, bio-fuels, hybrid and EV
- Employee costs in Q1FY22 were higher in part due to wage settlement provision and some Covid-related non-recurring expenses (~₹ 30 crore)
- Against wholesale market share of ~46%, retail market share is lower at ~40%, hurt by reduced CNG variant production (diversion of oxygen to medical industry) and lower channel inventory in April 2021
- Suzuki Motor Gujarat (SMG) expenses (ex-depreciation) are recorded in MSIL's raw material cost. SMG depreciation is recorded in other expenses
- FY22E capex spends are seen at ₹ 4,500 crore

*MSIL expects SUVs to form ~42% of industry volumes in the next five years. Going forward, share of replacement buyers at industry level is expected to return to pre-Covid levels of ~26% vs. ~18% currently*

*Discounts/unit in Q1FY22 were at ₹ 14,000*

*Exports revenues for Q1FY22 were at ₹ 2,286 crore*

*Sales from non-urban areas contribute to ~40% of overall volumes*

## Peer comparison

Exhibit 1: ICICI Direct coverage universe (4-W OEMs)

Company	CMP	TP	Rating	Mcap ₹ crore	Total lakh volumes			EBITDA margin (%)			RoE (%)			RoCE (%)			P/E		
	₹	₹			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Maruti Suzuki (MARUTI)	7,150	6,400	Reduce	2,15,987	14.6	17.7	19.8	7.6	7.2	9.0	8.2	8.5	11.7	4.3	5.9	9.5	51.1	46.7	31.3
Tata Motors (TATMOT)	284	375	Buy	1,08,916	2.2	2.8	3.2	14.3	13.4	14.9	(23.6)	0.6	20.3	6.3	7.9	14.8	NM	330.3	7.5
M&M (MAHMAH)	729	1,000	Buy	90,592	3.5	4.2	4.8	14.4	11.8	13.0	2.7	9.6	11.1	9.5	8.2	10.5	323.7	24.4	19.3

Source: Company, ICICI Direct Research

Note – There are no directly comparable listed companies in pure-play PVs. Tata Motors, M&M volumes above are for India PV & automotive businesses respectively.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (Chg %)	Q4FY21	QoQ (Chg %)	Comments
Total Operating Income	17,771	18,026	4,107	332.7	24,024	-26.0	Revenues came marginally lower than expected due to slightly lower than expected ASPs
Raw Material Expenses	13,291	13,453	2,936	352.6	17,751	-25.1	Gross margins declined by 90 bps QoQ, with commodity costs up 3.5% QoQ in Q1FY22
Employee Expenses	1,064	799	730	45.7	900	18.2	Employee costs recorded a sharp jump over previous run rate, partly on account of non-recurring Covid related expenses
Other expenses	2,595	2,687	1,303	99.1	3,381	-23.3	
Operating Profit (EBITDA)	821	1,086	-863	-195.1	1,991	-58.8	
EBITDA Margin (%)	4.6	6.0	-21.0	2565 bps	8.3	-367 bps	EBITDA margins surprised negatively chiefly on account of higher than expected employee costs
Other Income	508	751	1,318	-61.5	90	465.5	Other income stood much lower than anticipated
Depreciation	743	798	783	-5.1	741	0.3	
Interest	22	23	17	28.3	32	-31.5	
Total Tax	122.7	228.5	-96.3	-227.4	141.4	-13.2	
PAT	441	787	-249	-276.7	1,166	-62.2	Miss on operating income and margins front along with lower than expected other income led to miss at PAT level for the quarter
EPS	14.6	26.1	-8.3	-276.7	38.6	-62.2	
<b>Key Metrics</b>							
ASP (₹)	4,75,058	4,80,905	4,80,098	-1.0	4,66,415	1.9	ASPs were slightly lower than expected but still rose 1.9% QoQ
Discounts (₹)	14,000	15,000	25,000	-44.0	16,600	-15.7	Discounts fell sharply during the quarter

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Total Operating Income	88,238	89,112	1.0	1,00,706	1,01,387	0.7	Our revenue estimates remain broadly unchanged
EBITDA	7,099	6,405	-9.8	9,223	9,121	-1.1	
EBITDA Margin (%)	8.0	7.2	-81 bps	9.2	9.0	-16 bps	Margin estimates for FY22E are revised lower to account for enhanced employee cost run rate and adverse commentary on Q2FY22E raw material costs. No major revision in FY23E margins
PAT	5,224	4,625	-11.5	6,801.0	6,903	1.5	FY22E PAT estimates are revised lower primarily due to downward revision in margins
EPS (₹)	173	153	-11.5	225.0	229	1.5	

Source: ICICI Direct Research

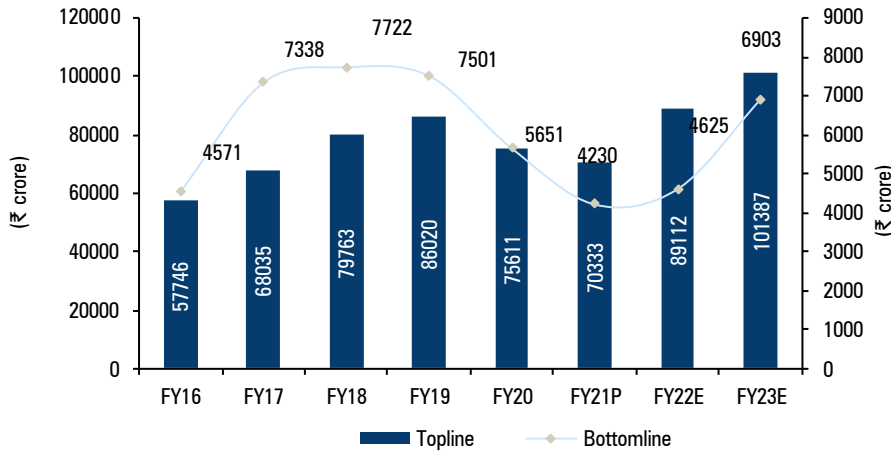
Exhibit 4: Assumptions

	Current				Earlier				Comments
	FY18	FY19	FY20	FY21P	FY22E	FY23E	FY22E	FY23E	
Total Volumes (lakh units)	17.8	18.6	15.6	14.6	17.7	19.8	17.5	19.6	We expect MSIL to clock 16.5% total volume CAGR over FY21-23E to 19.8 lakh units amid expected tailwinds from personal mobility push post Covid. ASPs are seen growing at 3.1% CAGR, reflective of further calibrated price hikes to pass on high input costs.
Average ASPs (₹ lakh/unit)	4.39	4.46	4.59	4.57	4.77	4.86	4.78	4.88	
RMC/Unit (₹ lakh/unit)	3.09	3.24	3.45	3.49	3.78	3.79	3.74	3.79	
Discount (₹/unit)	15,895	18,334	23,688	19,771	14,500	15,000	15,000	15,000	

Source: ICICI Direct Research

### Financial story in charts

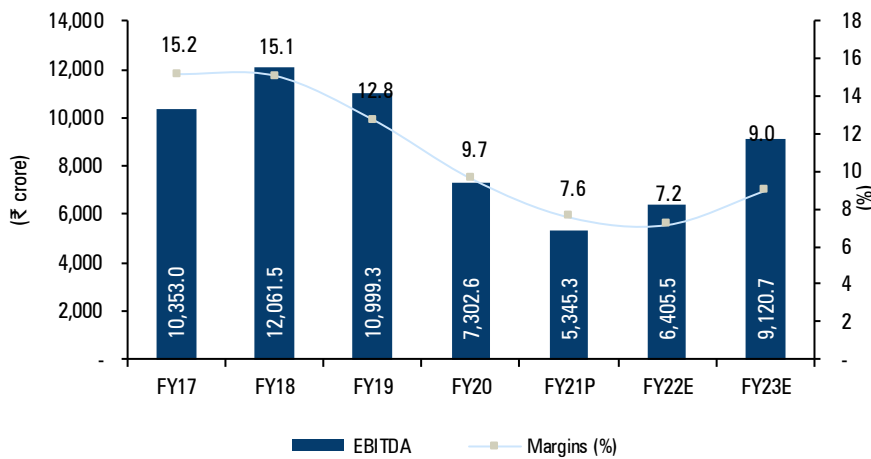
Exhibit 5: Trend in topline and bottomline



Source: Company, ICICI Direct Research

We expect net sales to grow at 20.1% CAGR over FY21P-23E on the back of 16.5% volume CAGR. PAT is expected to grow at 27.8% CAGR

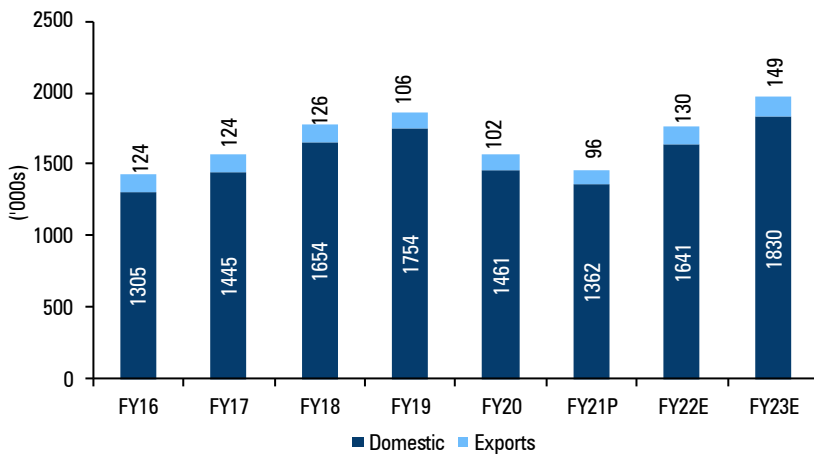
Exhibit 6: Trend in margins



Source: Company, ICICI Direct Research

Margins are expected to recover to 9% by FY23E vs. 7.6% in FY21P primarily tracking operating leverage benefits

Exhibit 7: Domestic vs. exports volume trend



Source: Company, ICICI Direct Research

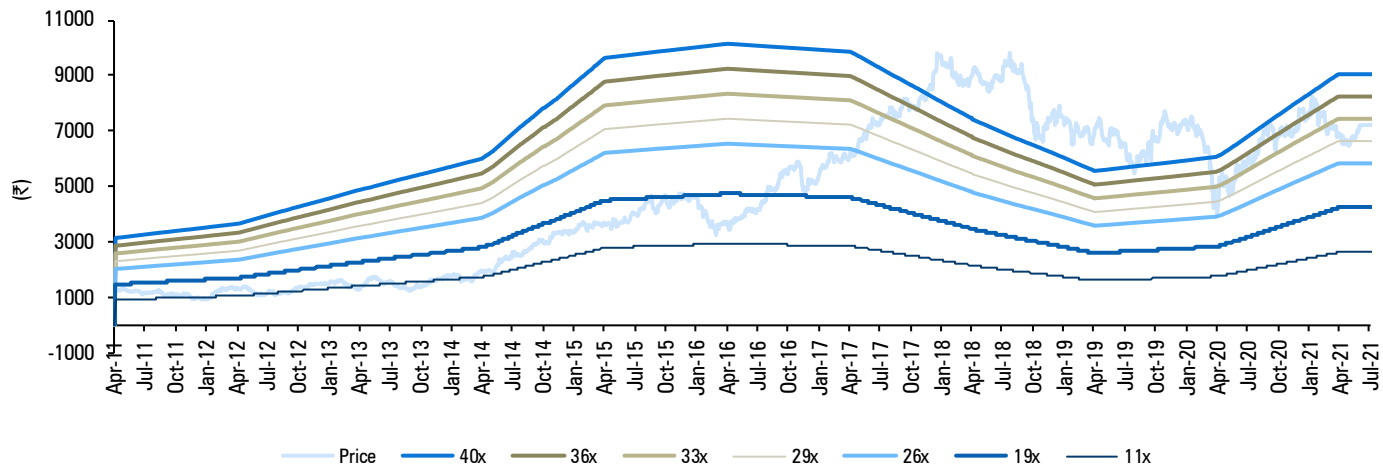
Exports are seen comprising 7.5% of FY23E volumes

Exhibit 8: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	86,020	7.8	248	(2.9)	28.8	16.4	16.3	16.3
FY20	75,611	(12.1)	187	(24.7)	38.2	24.7	11.7	7.4
FY21P	70,333	(7.0)	140	(25.1)	51.1	32.3	8.2	4.3
FY22E	89,112	26.7	153	9.4	46.7	27.0	8.5	5.9
FY23E	1,01,387	13.8	229	49.2	31.3	18.4	11.7	9.5

Source: Company, ICICI Direct Research

Exhibit 9: MSIL currently trades at ~31x its FY23E EPS



Source: Bloomberg, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
<b>Total operating Income</b>	<b>75,611</b>	<b>70,333</b>	<b>89,112</b>	<b>1,01,387</b>
Growth (%)	-12.1	-7.0	26.7	13.8
Raw Material Expenses	53,995	50,817	66,881	75,088
Employee Expenses	3,384	3,403	3,993	4,204
Other expenses	10,929	10,767	11,832	12,974
Total Operating Expenditure	68,308	64,987	82,706	92,266
<b>EBITDA</b>	<b>7302.6</b>	<b>5345.3</b>	<b>6405.5</b>	<b>9120.7</b>
Growth (%)	-34	-27	20	42
EBITDA margins (%)	9.7	7.6	7.2	9.0
Depreciation	3,526	3,032	3,030	3,244
Interest	133	101	91	82
Other Income	3,421	2,946	2,678	3,112
PBT	7,065	5,159	5,963	8,907
Total Tax	1,414	930	1,338	2,004
Tax Rate (%)	20.0	18.0	22.4	22.5
<b>PAT</b>	<b>5650.6</b>	<b>4229.7</b>	<b>4625.3</b>	<b>6903.0</b>
Growth (%)	-24.7	-25.1	9.4	49.2
<b>EPS (₹)</b>	<b>187.1</b>	<b>140.0</b>	<b>153.1</b>	<b>228.5</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
<b>Profit after Tax</b>	<b>5,651</b>	<b>4,230</b>	<b>4,625</b>	<b>6,903</b>
Add: Depreciation	3,526	3,032	3,030	3,244
Sub: Other Income	3,421	2,946	2,678	3,112
(Inc)/dec in Current Assets	-50	113	-2,511	-1,320
Inc/(dec) in CL and Provisions	-2,812	4,429	834	2,266
Others	133	101	91	82
<b>CF from operating activities</b>	<b>3025.9</b>	<b>8957.9</b>	<b>3391.2</b>	<b>8062.5</b>
(Inc)/dec in Investments	-328	-5,069	-1,000	-4,500
(Inc)/dec in Fixed Assets	-3,637	-2,360	-4,500	-3,500
Others	891	-442	-310	-310
Add: Other income	3,421	2,946	2,678	3,112
<b>CF from investing activities</b>	<b>347.5</b>	<b>-4924.4</b>	<b>-3132.2</b>	<b>-5197.6</b>
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-43	383	-100	-100
Dividend paid & dividend tax	-2,175	-1,359	-1,510	-2,266
Others	-1,313	-41	-91	-82
<b>CF from financing activities</b>	<b>-3531.3</b>	<b>-1018.3</b>	<b>-1701.1</b>	<b>-2447.2</b>
Net Cash flow	-158	3,015	-1,442	418
Opening Cash	179	21	3,036	1,594
<b>Closing Cash</b>	<b>21.1</b>	<b>3036.4</b>	<b>1594.2</b>	<b>2011.8</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	151	151	151	151
Reserve and Surplus	48,286	51,216	54,331	58,968
<b>Total Shareholders funds</b>	<b>48437.0</b>	<b>51366.8</b>	<b>54481.6</b>	<b>59119.0</b>
Total Debt	106	489	389	289
Deferred Tax Liability	598	385	385	385
Others Liabilities	2,222	2,209	2,249	2,289
<b>Total Liabilities</b>	<b>51363.6</b>	<b>54449.5</b>	<b>57504.3</b>	<b>62081.7</b>
<b>Assets</b>				
Gross Block	30,391	32,896	37,838	41,588
Less: Acc Depreciation	14,610	17,641	20,671	23,915
<b>Net Block</b>	<b>15781.2</b>	<b>15254.5</b>	<b>17167.0</b>	<b>17672.6</b>
Capital WIP	1,337	1,192	750	500
Total Fixed Assets	17,119	16,447	17,917	18,173
<b>Investments</b>	<b>36467.6</b>	<b>41786.7</b>	<b>43036.7</b>	<b>47786.7</b>
Inventory	3,215	3,050	3,662	4,167
Debtors	2,127	1,277	2,441	2,778
Loans and Advances	17	23	29	33
Other Current Assets	1,829	2,725	3,453	3,928
<b>Cash</b>	<b>21.1</b>	<b>3036.4</b>	<b>1594.2</b>	<b>2011.8</b>
Total Current Assets	7,209	10,111	11,179	12,917
Creditors	7,494	10,162	9,766	11,111
Provisions	680	742	713	811
Other current Liabilities	3,015	4,715	5,973	6,796
Total Current Liabilities	11,189	15,618	16,452	18,718
<b>Net Current Assets</b>	<b>-3979.9</b>	<b>-5506.9</b>	<b>-5272.3</b>	<b>-5800.6</b>
Other Assets	1,757	1,723	1,823	1,923
<b>Application of Funds</b>	<b>51363.6</b>	<b>54449.5</b>	<b>57504.3</b>	<b>62081.7</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21P	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	187.1	140.0	153.1	228.5
Cash EPS	303.8	240.4	253.4	335.9
BV	1,603.4	1,700.4	1,803.5	1,957.1
DPS	60.0	45.0	50.0	75.0
Cash Per Share	1,186.1	1,453.7	1,439.1	1,601.9
<b>Operating Ratios</b>				
EBITDA Margin (%)	9.7	7.6	7.2	9.0
PBIT / Net sales (%)	5.0	3.3	3.8	5.8
PAT Margin (%)	7.5	6.0	5.2	6.8
Inventory days	15.5	15.8	15.0	15.0
Debtor days	10.3	6.6	10.0	10.0
Creditor days	36.2	52.7	40.0	40.0
<b>Return Ratios (%)</b>				
RoE	11.7	8.2	8.5	11.7
RoCE	7.4	4.3	5.9	9.5
RoIC	26.8	25.0	25.6	45.0
<b>Valuation Ratios (x)</b>				
P/E	38.2	51.1	46.7	31.3
EV / EBITDA	24.7	32.3	27.0	18.4
EV / Net Sales	2.4	2.5	1.9	1.7
Market Cap / Sales	2.9	3.1	2.4	2.1
Price to Book Value	4.5	4.2	4.0	3.7
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.1	0.1	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	0.6	0.9	0.9
<b>Quick Ratio</b>	<b>0.5</b>	<b>0.4</b>	<b>0.6</b>	<b>0.6</b>

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E
Apollo Tyre (APOTYR)	221	275	Buy	14,028	5.5	9.9	16.2	40.1	22.4	13.6	6.7	6.9	5.0	7.6	6.1	9.1	6.4	5.3	8.2
Ashok Leyland (ASHLEY)	122	150	Buy	35,564	-1.1	1.1	4.4	-113.7	110.3	27.7	72.0	29.4	14.4	-1.9	4.8	15.7	-4.4	4.5	16.5
Bajaj Auto (BAAUTO)	3,819	4,350	Hold	1,10,496	157.4	167.7	193.6	24.3	22.8	19.7	18.0	16.7	14.1	18.2	19.3	22.5	18.1	18.9	21.4
Balkrishna Ind. (BALIND)	2,360	2,250	Buy	45,621	59.8	68.2	80.5	39.5	34.6	29.3	25.8	22.2	18.8	19.3	20.4	21.6	19.2	19.0	19.4
Bharat Forge (BHAFOR)	778	875	Buy	36,221	-2.7	15.9	25.0	NM	49.1	31.1	44.7	24.0	17.1	2.2	8.0	12.1	3.3	12.3	16.9
Eicher Motors (EICMOT)	2,550	2,970	Hold	69,524	49.3	66.7	87.4	51.8	38.2	29.2	34.7	26.6	20.2	11.3	13.5	15.8	11.8	14.3	16.6
Escorts (ESCORT)	1,137	1,136	Hold	13,943	71.2	62.0	76.9	16.0	18.3	14.8	9.7	11.1	8.7	18.7	13.8	14.8	16.2	12.6	13.7
Hero Moto (HERHON)	2,778	3,440	Buy	55,471	148.4	170.8	196.5	18.7	16.3	14.1	11.8	10.0	8.5	20.8	23.1	24.5	19.5	20.7	21.7
M&M (MAHMAH)	729	1,000	Buy	90,592	2.3	29.9	37.8	323.7	24.4	19.3	13.4	14.2	11.3	9.5	8.2	10.5	2.7	9.6	11.1
<b>Maruti Suzuki (MARUTI)</b>	<b>7,150</b>	<b>6,400</b>	<b>Reduce</b>	<b>2,15,987</b>	<b>140.0</b>	<b>153.1</b>	<b>228.5</b>	<b>51.1</b>	<b>46.7</b>	<b>31.3</b>	<b>32.3</b>	<b>27.0</b>	<b>18.4</b>	<b>4.3</b>	<b>5.9</b>	<b>9.5</b>	<b>8.2</b>	<b>8.5</b>	<b>11.7</b>
Minda Industries (MININD)	730	725	Buy	19,844	7.6	10.9	19.1	96.0	67.0	38.1	28.5	23.8	16.8	9.1	10.6	16.7	10.4	14.2	19.6
Motherson (MOTSUM)	229	300	Buy	72,285	3.3	7.4	10.0	NM	30.8	22.9	15.9	9.6	7.8	6.7	16.2	20.5	8.8	16.7	19.7
Tata Motors (TATMOT)	284	375	Buy	1,08,916	-35.0	0.9	37.9	NM	330.3	7.5	5.0	4.8	3.1	6.3	7.9	14.8	-23.6	0.6	20.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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