

Maruti Suzuki (MARUTI)

CMP: ₹ 12,750 Target: ₹ 14,000 (10%) Target Period: 12 months

April 29, 2024

Levers for margin gains, valuations limit the upside...

About the stock: Maruti Suzuki (MSIL) is the market leader in the domestic passenger vehicle (PV) space with market share pegged at ~41.7% as of FY24 and popular models being WagonR, Swift, Brezza, Baleno, Ertiga, Fronx, among others.

- Market leader in each sub-segment - cars (63.3%), UV (25.5%), vans (92%)

Q4FY24 Results: MSIL reported stable performance in Q4FY24, marginally short of street expectations. Sales volume for the quarter stood at 5.84 lakh units, up 13.4% YoY with consequent sales at ₹ 36,698 crore and corresponding ASPs at ₹6.28 lakh/unit, down 1.2% QoQ. EBITDA margins for the quarter came in at 12.3%, up 60 bps QoQ. Consequent PAT in Q4FY24 came in at ₹3,878 crore, up 48% YoY

Investment Rationale:

- Low car penetration, MSIL commitment to India – structural positives:** Although India is the world's third largest passenger vehicle market, car penetration still remains low vs. global average, developed economies in the west & China. With rising per capita income domestically, this presents healthy long term growth longevity for domestic PV space with MSIL a clear beneficiary. In the recent past, MSIL has announced that it will set up its new greenfield PV plant in Gujarat at a capex outlay of ₹ 35,000 crore and 10 lakh units of rated capacity with likely commissioning by FY29. It also announced brownfield expansion of 2.5 lakh units at its existing plant in Gujarat. It is already constructing a new plant in Haryana and will be operational in CY25 (1st phase-2.5 lakh units). These investments are in tandem with its overall big plan to augment domestic capacity from ~24 lakhs units to ~40 lakh units by FY31 & showcases its commitment to Indian markets thereby providing long runway for tangible growth at MSIL
- CNG growth, stable commodities & currency tailwinds to uplift margins:** MSIL clocked ~4.5-4.8 lakh units in CNG space in FY24E and has guided for ~6 lakh units of sales volume for FY25E, which should be margin accretive for the company in our view. On RM rise, prices are broadly stable expect for copper (1% of sales) and Aluminium (3% of sales). On the currency side however, it stands to before from recent depreciation of Yen against INR. We bake in 13% EBITDA margins at MSIL for FY25E/FY26E. Any possible GST rate reduction on Hybrids is also positive for MSIL.

Rating and Target Price

- Maruti Suzuki is well placed to capitalize on rising penetration of PVs in India accompanied by a rise in income levels. With levers for margin gains we expect Sales/PAT at MSIL to grow at a CAGR 10.4/15.5% respectively over FY24-26E. The stock however has run up quite healthy in the recent past (up ~25% in CY24) and now trades at ~23x PE on FY26E basis.
- Consequently, we assign **HOLD** rating on the stock with target price pegged at ₹ 14,000 valuing it at **25x P/E on FY26E EPS of ₹ 560/share**

HOLD



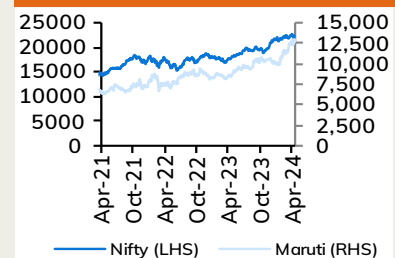
Particulars

| Particular | ₹ crore |
|-----------------------|----------------|
| Market Capitalization | 4,00,860 |
| Total Debt (FY24P) | 33 |
| Cash & Invt. (FY24P) | 54,372 |
| EV | 3,46,521 |
| 52 week H/L (₹) | 13,074 / 8,605 |
| Equity capital | ₹ 157.2 Crore |
| Face value | ₹ 5 |

Shareholding pattern

| | June-23 | Sep-23 | Dec-23 | Mar-24 |
|----------|---------|--------|--------|--------|
| Promoter | 56.5 | 56.5 | 58.2 | 58.2 |
| FII | 21.9 | 21.9 | 20.6 | 19.6 |
| DII | 18.1 | 18.2 | 17.6 | 18.9 |
| Other | 3.6 | 3.5 | 3.6 | 3.3 |

Price Chart



Recent event & key risks

- Reports stable performance in Q4FY24. Margins at 12.3%
- Key Risk: (i) rise in commodity prices especially non-ferrous metals to limit margin gains (ii) more than anticipated o/p leverage gains and currency tailwinds uplifting margins

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Key Financial Summary

| Key Financials (₹ crore) | FY20 | FY21 | FY22 | FY23 | FY24P | 5 year CAGR (FY19-24P) | FY25E | FY26E | 2 year CAGR (FY24P-26E) |
|--------------------------|--------|--------|--------|----------|----------|------------------------|----------|----------|-------------------------|
| Total Operating Income | 75,611 | 70,333 | 88,296 | 1,17,523 | 1,40,933 | 10.4% | 1,55,470 | 1,71,751 | 10.4% |
| EBITDA | 7,303 | 5,345 | 5,701 | 11,008 | 16,360 | 8.3% | 20,193 | 22,307 | 16.8% |
| EBITDA Margins (%) | 9.7 | 7.6 | 6.5 | 9.4 | 11.6 | | 13.0 | 13.0 | |
| Net Profit | 5,651 | 4,230 | 3,766 | 8,049 | 13,209 | 12.0% | 16,075 | 17,611 | 15.5% |
| EPS (₹) | 187 | 140 | 125 | 266 | 420.1 | | 511.3 | 560.1 | |
| P/E | 68.2 | 91.1 | 102.3 | 47.8 | 30.3 | | 24.9 | 22.8 | |
| RoNW (%) | 11.7 | 8.2 | 7.0 | 13.3 | 15.7 | | 16.9 | 16.4 | |
| RoC (%) | 26.8 | 24.2 | 24.5 | 52.9 | 50.3 | | 56.5 | 52.5 | |

Source: Company, ICICI Direct Research

Q4FY24 Earnings Conference Call highlights

- Industry:** The domestic PV Industry reported the highest sales volume of 42 lakh units up by 8.4% YoY in FY24, driven by new SUV launches and improvement in the supply of semi-conductors. SUVs contribute >50% of the overall PV Industry. The hatchback segment witnessed a significant decline, with the overall share reducing from the high of ~46% in FY19 to ~27% in FY27. CNG vehicle share increased from 10.4% in FY23 to 15% in FY24, while Hybrid and EV Vehicle shares are about 2% respectively.
- CNG and Hybrid:** At Maruti, CNG, Smart Hybrid & Hybrid space has witnessed increased contribution from 37% in FY23 to 42% in FY24. However, the share of CNG has sequentially declined from 30.8% in Q3FY24 to 26.9% in Q4FY24 owing to supply shortages in one of CNG component, but it's witnessing normalization in supply in the current quarter. MSIL targets CNG vehicle sales volume of 600k units in FY25E vs. ~4.5-4.8 lakh units clocked in FY24. Ertiga model will be a major contributor with incremental capacity in place
- Utility Vehicle and Export:** MSIL expects a further increase in the share of SUVs in the coming years. It will increase its models in the SUV segment to regain its 50% market share in the PV industry. Exports stood at 283k units with growth rate of 9.2% YoY in FY24, whereas the rest of the players witnessed a degrowth in the same period. MSIL aims to export more than 300k units in FY25.
- Capacity:** MSIL's greenfield project in Kharkhoda, Haryana, is progressing well with first phase of 2.5 lakh units to be operational in CY25. It will setup three more such plants in a phased manner to take the total capacity of 1 million units at this plant. It has also signed an MOU with Gujarat government to set up a new greenfield facility with a capacity of 1 million units at a total investment of ₹ 35,000 crores, aiming to be operational by FY29.
- Commodity:** MSIL is concerned about the rise in prices of copper and aluminium, which contributes 1% and 3% of overall net sales respectively. Steel exposure is ~10% to 11% of net sales. Platinum, palladium, and rhodium are about 2.5% of overall net sales. Forex was neutral in Q4FY24. It has direct import forex exposure of 2.5% in yen & 0.5% in dollars. In indirect exposure which happens with a lag of a quarter, ~4% is in yen, ~4.6% in dollars and ~1.2% in euros.
- Wholesale and Retail:** The discount/vehicle declined from ₹ 23,300 in Q324 to ₹ 14,800 per vehicle in Q4FY24. The discount on retail sale was flat at ₹ 18,000 per vehicle. Retail sales for the quarter stood at 398k units, lower than wholesales by 92k units, whereas retail sales were higher than wholesale by 114.5k units in Q3FY24.
- Inventory and Pending booking:** The Inventory level stands at 136k units at the end of Q4FY24. MSIL aims to maintain one month of inventory in the range of 150k to 160k units. Pending bookings were at ~200k vehicle by the end of Q4FY24, out of which, CNG vehicle pending booking stands at ~111k units with most of its booking for the Ertiga model. Inquiry level remains at a high single digit range. Royalty rate stood at 3.5%.

Topline and Margins: Sales volume for the quarter sequentially grew by 16.5%, whereas net sales only grew by 15.2% QoQ basis due to change in product mix with low contribution from CNG vehicles owing to shortage of supply in one of the components

Others: In FY24, contribution from first time buyers stood at ~42%-43% followed by additional and replacement buyers at 38% and 20% respectively. Rural sales volumes growth was higher than urban. MSIL is witnessing no recovery in first time buyers and expects sales of small cars to be difficult going forward.

Key tables and charts

Exhibit 1: Quarterly Analysis

| | Q4FY24 | Q4FY23 | YoY (Chg %) | Q3FY24 | QoQ (Chg %) | Comments |
|---------------------------|----------|----------|-------------|----------|-------------|---|
| Total Operating Income | 38,235 | 32,048 | 19.3 | 33,309 | 14.8 | Topline for the quarter was marginally lower than anticipated due to QoQ decline in ASP's amid decline in CNG share of volumes due to supply side issue |
| Raw Material Expenses | 27,289 | 23,487 | 16.2 | 23,618 | 15.5 | RM costs came in a tad higher at 71.4% of sales (up 50 bps QoQ) |
| Employee Expenses | 1,366 | 1,113 | 22.7 | 1,339 | 2.1 | |
| Other expenses | 4,895 | 4,097 | 19.5 | 4,445 | 10.1 | Savings were realised on the other expenses side and were lower at 12.8% of sales (down 50 bps QoQ) |
| Operating Profit (EBITDA) | 4,685 | 3,350 | 39.8 | 3,908 | 19.9 | |
| EBITDA Margin (%) | 12.3 | 10.5 | 180 bps | 11.7 | 52 bps | EBITDA margins for the quarter came in at 12.3%, up 50 bps QoQ and marginally short of street expectations |
| Other Income | 1,118 | 743 | 50.5 | 933 | 19.8 | |
| Depreciation | 729 | 739 | -1.4 | 752 | -3.0 | Depreciation was on expected lines |
| Interest | 76 | 99 | -23.1 | 35 | 115.3 | |
| Total Tax | 1,120.0 | 631.2 | 77.4 | 923.8 | 21.2 | |
| PAT | 3,878 | 2,624 | 47.8 | 3,130 | 23.9 | PAT for the quarter grew healthy 48% YoY and 24% QoQ to ₹ 3,878 crore |
| EPS | 123.3 | 86.9 | 42.0 | 99.6 | 23.9 | |
| Key Metrics | | | | | | |
| ASP (₹) | 6,28,348 | 5,98,566 | 5.0 | 6,35,666 | -1.2 | ASP's declines QoQ due to decline in CNG share of volumes (component shortage) |
| Discounts (₹) | 14,500 | 13,269 | 9.3 | 23,300 | -37.8 | Discounts tapered off QoQ to ₹ 14,500 |

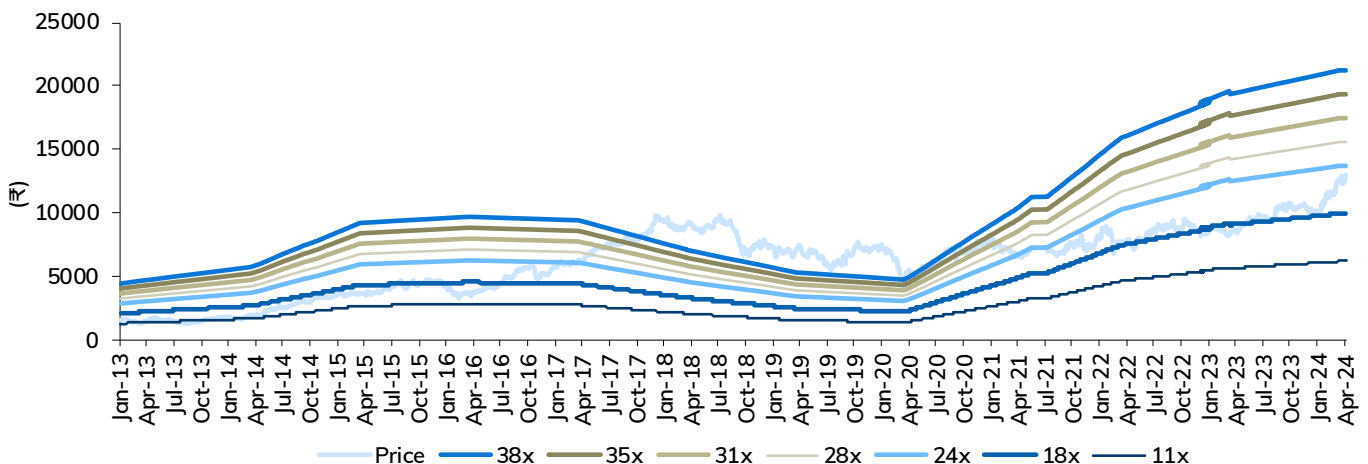
Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

| | FY19 | FY20 | FY21 | FY22 | FY23 | FY24P | FY25E | FY26E |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Volumes (lakh units) | 18.6 | 15.6 | 14.6 | 16.5 | 19.7 | 21.4 | 22.7 | 24.3 |
| Average ASPs (₹ lakh/unit) | 4.46 | 4.59 | 4.57 | 5.07 | 5.72 | 6.32 | 6.57 | 6.75 |
| RMC/Unit (₹ lakh/unit) | 3.24 | 3.45 | 3.49 | 4.00 | 4.39 | 4.71 | 4.83 | 4.97 |
| Discount (₹/unit) | 18,334 | 23,688 | 19,771 | 14,700 | 14,538 | 17,929 | 15,000 | 15,000 |

Source: ICICI Direct Research

Exhibit 3: MSIL currently trades at ~23x PE on two year forward basis vs. its long period averages of ~25x PE



Source: Company, ICICI Direct Research

Financial Summary

| Exhibit 4: Profit and loss statement | | | | |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY23 | FY24P | FY25E | FY26E |
| Total operating income | 1,17,523 | 1,40,933 | 1,55,470 | 1,71,751 |
| Growth (%) | 33.1 | 19.9 | 10.3 | 10.5 |
| Raw Material Expenses | 86,244 | 1,00,607 | 1,09,465 | 1,20,928 |
| Employee Expenses | 4,605 | 5,478 | 6,100 | 6,739 |
| Other expenses | 15,667 | 18,487 | 19,713 | 21,777 |
| Total Operating Expenditure | 1,06,515 | 1,24,573 | 1,35,277 | 1,49,444 |
| EBITDA | 11,008 | 16,360 | 20,193 | 22,307 |
| Growth (%) | 93 | 49 | 23 | 10 |
| Depreciation | 2,823 | 3,022 | 3,343 | 3,693 |
| Interest | 187 | 193 | 155 | 124 |
| Other Income | 2,161 | 3,896 | 4,046 | 4,233 |
| PBT | 10,159 | 17,040 | 20,742 | 22,724 |
| Total Tax | 2,110 | 3,831 | 4,667 | 5,113 |
| Tax Rate (%) | 20.8 | 22.5 | 22.5 | 22.5 |
| PAT | 8,049 | 13,209 | 16,075 | 17,611 |
| Growth (%) | 113.7 | 64.1 | 21.7 | 9.6 |
| EPS (₹) | 266.5 | 420.1 | 511.3 | 560.1 |

Source: Company, ICICI Direct Research

| Exhibit 5: Cash flow statement | | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY23 | FY24P | FY25E | FY26E |
| Profit after Tax | 8,049 | 13,209 | 16,075 | 17,611 |
| Add: Depreciation | 2,823 | 3,022 | 3,343 | 3,693 |
| Sub: Other Income | 2,161 | 3,896 | 4,046 | 4,233 |
| (Inc)/dec in Current Assets | -1,947 | -1,255 | -976 | -1,333 |
| Inc/(dec) in CL and Provisions | 2,252 | 4,012 | 930 | 2,323 |
| Others | 187 | 193 | 155 | 124 |
| CF from operating activities | 9,202 | 15,286 | 15,480 | 18,185 |
| (Inc)/dec in Investments | -6,798 | -8,060 | -4,000 | -6,400 |
| (Inc)/dec in Fixed Assets | -6,879 | -7,350 | -10,000 | -10,000 |
| Others | 421 | -12,365 | -130 | -130 |
| Add: Other income | 2,161 | 3,896 | 4,046 | 4,233 |
| CF from investing activities | (11,095) | (23,878) | (10,084) | (12,297) |
| Issue/(Buy back) of Equity | 0 | 0 | 0 | 0 |
| Inc/(dec) in loan funds | 834 | -1,183 | -20 | -10 |
| Dividend paid & dividend tax | -2,719 | -3,930 | -4,873 | -5,345 |
| Others | 779 | 14,127 | -155 | -124 |
| CF from financing activities | (1,106) | 9,015 | (5,048) | (5,478) |
| Net Cash flow | -2,999 | 422 | 348 | 410 |
| Opening Cash | 3,036 | 38 | 460 | 808 |
| Closing Cash | 38 | 460 | 808 | 1,218 |

Source: Company, ICICI Direct Research

| Exhibit 6: Balance Sheet | | | | |
|---------------------------------|----------------|----------------|----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY23 | FY24P | FY25E | FY26E |
| Liabilities | | | | |
| Equity Capital | 151 | 157 | 157 | 157 |
| Reserve and Surplus | 60,231 | 83,825 | 95,026 | 1,07,293 |
| Total Shareholders funds | 60,382 | 83,982 | 95,184 | 1,07,450 |
| Total Debt | 1,216 | 33 | 13 | 3 |
| Deferred Tax Liability | 0 | 0 | 0 | 0 |
| Others Liabilities | 2,697 | 3,374 | 3,594 | 3,814 |
| Total Liabilities | 64,295 | 87,389 | 98,791 | 1,11,267 |
| Assets | | | | |
| Gross Block | 41,145 | 44,999 | 51,302 | 61,302 |
| Less: Acc Depreciation | 23,251 | 26,273 | 29,616 | 33,308 |
| Net Block | 17,894 | 18,726 | 21,687 | 27,994 |
| Capital WIP | 2,808 | 6,303 | 10,000 | 10,000 |
| Total Fixed Assets | 20,702 | 25,029 | 31,687 | 37,994 |
| Investments | 47,756 | 68,514 | 72,764 | 79,414 |
| Inventory | 4,284 | 4,120 | 4,259 | 4,706 |
| Debtors | 3,296 | 4,601 | 5,111 | 5,647 |
| Loans and Advances | 30 | 33 | 36 | 40 |
| Other Current Assets | 4,526 | 4,637 | 4,959 | 5,307 |
| Cash | 38 | 460 | 808 | 1,218 |
| Total Current Assets | 12,173 | 13,850 | 15,175 | 16,917 |
| Creditors | 11,780 | 14,582 | 14,908 | 16,469 |
| Provisions | 962 | 1,207 | 1,234 | 1,363 |
| Other current Liabilities | 6,141 | 7,107 | 7,684 | 8,317 |
| Total Current Liabilities | 18,884 | 22,896 | 23,826 | 26,149 |
| Net Current Assets | (6,711) | (9,045) | (8,651) | (9,232) |
| Other Assets | 2,548 | 2,892 | 2,992 | 3,092 |
| Application of Funds | 64,295 | 87,389 | 98,791 | 1,11,267 |

Source: Company, ICICI Direct Research

| Exhibit 7: Key ratios | | | | |
|-----------------------------|------------|------------|------------|------------|
| (Year-end March) | FY23 | FY24P | FY25E | FY26E |
| Per share data (₹) | | | | |
| EPS | 266.5 | 420.1 | 511.3 | 560.1 |
| Cash EPS | 359.9 | 516.3 | 617.6 | 677.6 |
| BV | 1,998.9 | 2,671.2 | 3,027.5 | 3,417.6 |
| DPS | 90.0 | 130.1 | 155.0 | 170.0 |
| Cash Per Share | 1,519.1 | 1,729.4 | 1,867.7 | 2,084.3 |
| Operating Ratios | | | | |
| EBITDA Margin (%) | 9.4 | 11.6 | 13.0 | 13.0 |
| PBIT / Net sales (%) | 7.0 | 9.5 | 10.8 | 10.8 |
| PAT Margin (%) | 6.8 | 9.4 | 10.3 | 10.3 |
| Inventory days | 13.3 | 10.7 | 10.0 | 10.0 |
| Debtor days | 10.2 | 11.9 | 12.0 | 12.0 |
| Creditor days | 36.6 | 37.8 | 35.0 | 35.0 |
| Return Ratios (%) | | | | |
| RoE | 13.3 | 15.7 | 16.9 | 16.4 |
| RoCE | 12.8 | 15.3 | 17.1 | 16.8 |
| RoIC | 52.9 | 50.3 | 56.5 | 52.5 |
| Valuation Ratios (x) | | | | |
| P/E | 47.8 | 30.3 | 24.9 | 22.8 |
| EV / EBITDA | 32.4 | 21.2 | 16.9 | 15.0 |
| EV / Net Sales | 3.0 | 2.5 | 2.2 | 2.0 |
| Market Cap / Sales | 3.4 | 2.8 | 2.6 | 2.3 |
| Price to Book Value | 6.4 | 4.8 | 4.2 | 3.7 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 0.1 | 0.0 | 0.0 | 0.0 |
| Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Ratio | 1.0 | 0.8 | 0.9 | 0.9 |
| Quick Ratio | 0.6 | 0.6 | 0.6 | 0.6 |

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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