

October 27, 2023

RESULT REPORT Q2FY24 | Sector: Automobile

# Maruti Suzuki

## Healthy operating performance

### Valuation and View – On track to outperform industry in FY24E

MSIL's 2QFY24 overall results were healthy as EBITDA/Adj.PAT came in higher by 18-22% to our/street estimates. This was led by higher than expected gross margins at 29.4% (+250bp YoY/ +220bp QoQ, led by soft RM). Going ahead, margins expansion to be influenced by 1) forex movement (expected to be favorable), 2) decline in precious metal prices to be partially offset by recent spurt in Steel prices (factor to remain watchful) and 3) under control discount at ~2.5% of ASP. The demand commentary remained mix with festive to festive industry growth expected at ~18% (MSIL to grow in-line) while FY24E PV industry growth expected at ~5%. With improved supply, overall orderbook declined to ~250k units as of today (v/s ~355k in 1Q and ~412k in 4QFY23).

We believe going forward with, i) stable demand, improving supplies and refreshed product portfolio, ii) moderating commodity inflation and iii) controlled blended discounts, EBITDA margins to recover ~11.2% in FY24E (v/s 9.4% in FY23 and 10.5% in 4QFY23). Going forward volume we build in healthy revenue/EBITDA/PAT CAGR of 15%/35%/30% over FY23-25E and maintain ADD rating on the stock with revised TP of Rs12,153 (v/s Rs11,671) valuing the stock at 26x Mar-25 EPS (v/s 10yr LPA of 29x). We upgrade FY24/25E EPS by ~2-4% to build in for better operating performance.

### Result Highlights – No-offs in the fine print

- Revenues grew ~23.8% YoY (+14.6% QoQ) at Rs370.6b (in-line) led by 16.1% YoY (+3.4% QoQ) growth in ASPs at record Rs671.3k/unit (est Rs688k/unit) while volumes grew 6.7% YoY (+10.8% QoQ) at 552k units. Average discounts increased to Rs17,692/unit (2.6% of ASP) v/s Rs16,214/unit (2.5% of ASP) in 1QFY24.
- Gross margins came in better than expected at 29.4% (est 27.5%, +250bp YoY/ +220bp QoQ). This was led by softening of key RM prices. Management indicated no one-offs on the margins print.
- Other expense came in at Rs47.9b (est Rs50.4b, +15.6% YoY). Consequently, EBITDA grew ~73% YoY (+60% QoQ) at Rs47.8b (est ~Rs39.2b, cons Rs40.4b) with margins expanded 360bp YoY (+370bp QoQ) at 12.9% (est 10.3%, cons 11%).
- Healthy operating performance was partially offset by lower other income at Rs8.4b (est Rs9b, -15.7% QoQ), led adj.PAT at ~Rs37.2b (est Rs31.4b, cons Rs30.4b, +80% YoY, +47% QoQ).

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	370,621	379,837	367,431	-2.4	0.9	Better than expected gross margins drive healthy beat at EBITDA and PAT.
EBITDA	47,842	39,274	40,453	21.8	18.3	
EBITDA margins %	12.9	10.3	11.0	260bp	190bp	
Adj PAT	37,165	31,359	30,407	18.5	22.2	

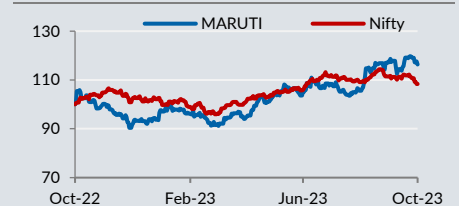
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 10,553
Target Price	: Rs 12,153
Potential Return	: +15%

### Stock data (as on October 27, 2023)

Nifty	19,122
52 Week h/l (Rs)	10,811 / 8,076
Market cap (Rs/USD mn)	31,88,047 / 38,350
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



	1M	3M	1Y
Absolute return	-1.2%	12.6%	10.2%

### Shareholding pattern (As of September'23 end)

Promoter	56.5%
FII+DII	40.1%
Others	3.4%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	12,153	11,671

### Δ in earnings estimates

	FY24E	FY25E
EPS (New)	438.3	467.4
EPS (Old)	429.8	448.9
% change	2.0%	4.1%

### Financial Summary

Y/E MAR (Rs b)	2023	2024E	2025E
Sales	1,175	1,409	1,556
EBITDA	110	171	186
Adj. PAT	80	130	138
EPS	275	438	467
EPS Gr. (%)	108	60	7
BV/Sh.	1,999	2,328	2,676
RoE (%)	13.3	18.4	17.1
RoCE (%)	14.4	21.4	20.0
Payout (%)	33.8	23.3	24.0
P/E (x)	35.7	24.1	22.6
P/BV (x)	4.9	4.5	3.9
EV/EBITDA (x)	22.6	15.6	13.9
Div Yield (%)	0.9	0.9	1.0

### DEEP SHAH

Lead Analyst

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## Exhibit 2: Quarterly snapshot

Y/e Mar (Rs m)	Q2FY24	Q2FY23	YoY chg (%)	Q1FY24	H1FY24	H1FY23	YoY chg (%)
Net Revenues	370,621	299,308	23.8	323,269	693,890	564,306	23.0
Raw Materials	261,690	218,801	19.6	235,317	497,007	416,503	19.3
% of Net Sales	70.6%	73.1%		72.8%	71.6%	73.8%	
Personnel	13,127	11,327	15.9	14,609	27,736	22,911	21.1
% of Net Sales	3.5%	3.8%		4.5%	4.0%	4.1%	
Manufacturing & Other Exp	47,962	41,491	15.6	43,513	91,475	78,082	17.2
% of Net Sales	12.9%	13.9%		13.5%	13.2%	13.8%	
Total Expenditure	322,779	271,619	18.8	293,439	616,218	517,496	19.1
EBITDA	47,842	27,689	72.8	29,830	77,672	46,810	65.9
EBITDA Margin (%)	12.9%	9.3%		9.2%	11.2%	8.3%	
Depreciation	7,941	7,226	9.9	7,475	15,416	13,740	12.2
EBIT	39,901	20,463	95.0	22,355	62,256	33,070	88.3
Interest Expenses	351	305	15.1	465	816	579	40.9
Non-operating income	8,436	6,125	37.7	10,012	18,448	7,010	163.2
PBT	47,986	26,283	82.6	31,902	79,888	39,501	102.2
Tax-Total	10,821	5,668	90.9	7,051	17,872	8,758	104.1
Tax Rate (%) - Total	22.6%	21.6%		22.1%	22.4%	22.2%	
Reported PAT	37,165	20,615	80.3	24,851	62,016	30,743	101.7
Adj. PAT	37,165	20,615	80.3	24,851	62,016	30,743	101.7
PAT Margin	10.0%	6.9%		7.7%	8.9%	5.4%	
<b>Key Operating Metrics</b>							
Sales Volume (nos)	552,055	517,395	6.7	498,030	1,050,085	985,326	6.6
Net Realisation/Vehicle	671,348	578,490	16.1	649,095	660,794	572,710	15.4
Material cost / vehicle	474,029	422,890	12.1	472,496	473,302	422,706	12.0
Gross Profit / vehicle	197,319	155,601	26.8	176,600	187,492	150,004	25.0
Employee cost /vehicle	23,778	21,892	8.6	29,334	26,413	23,252	13.6
Other expenses / vehicle	86,879	80,192	8.3	87,370	87,112	79,245	9.9
EBITDA/vehicle	86,662	53,516	61.9	59,896	73,967	47,507	55.7
Net Profit/vehicle	67,321	39,844	69.0	49,899	59,058	31,201	89.3

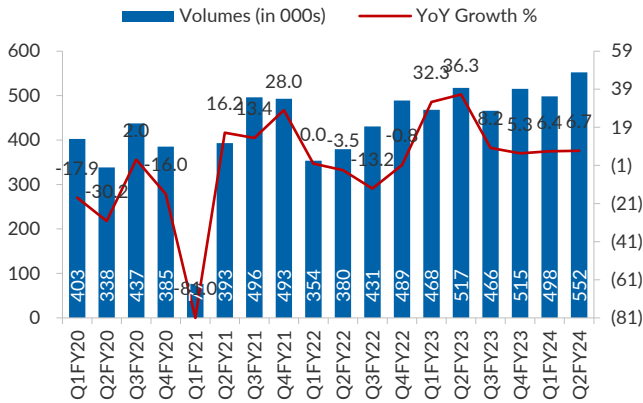
Source- Company, Yes Sec

## KEY CON-CALL HIGHLIGHTS

- **Current demand is stable in central and western markets** – till now industry has grown by ~20% while overall industry growth should be ~18% YoY (entire festive including Diwali) where MSIL should grow in-line with industry. Overall industry growth expected at ~5% for FY24E.
  - **Rural growth was slightly higher than urban growth.**
- **Weakness in the entry level cars** - Have seen ~10% reduction in the first-time buyers, impacted by various factors. New product introduction to continue.
- **Industry fuel mix** - Share of CNG is now at ~15%, diesel continues to decline at 17% (v/s ~19% in FY23), share of hybrid is increasing gradually to ~2% 2QFY24.
- **There was no production loss** in 2QFY24 due to chips shortages. Consequently, helped in serve pending **order book** which is at ~288k units in 2QFY24 (v/s ~355k units as of 1QFY24) and ~250k units as of today.
  - **Split of orderbook** - CNG ~123k units, Ertiga ~73.7k units, Brezza/GV/Jimny/Fornx would account for large part of the balance. There are some models such as Ertiga have constraint.
- **Margins** – there are no one-offs/exceptional as such in the results. Major margins expansions have come in from RM softening, especially from precious metal commodities (major benefit has come in 2QFY24). Going forward while previous metals pricing are still coming off, steel prices are increasing.
  - **Yen continues to depreciate vs USD and expect benefits of forex to flow through in 3QFY23.**
- **Will continue to work on both sides of margins and market share as committed to work towards achieving 50%.**
- **System inventory** is comfortable at ~1 month currently. Domestic wholesales in 2QFY24 were at 466,469 units v/s retails of 432,450 units.
- **Average discount was at Rs17,692/unit** (v/s 1QFY24 at Rs16,214 per unit v/s 4QFY23 at Rs13,269/unit).
- **Capex for FY24E would be Rs80b** (v/s Rs30b spent in 1HFY24).
- **Exports revenues were at Rs43.33b.** Export to ~100 countries of the world with top 3 models are S-presso, Dzire and Baleno. The focus ahead will be Africa, LATAM, SE Asia and ME markets.

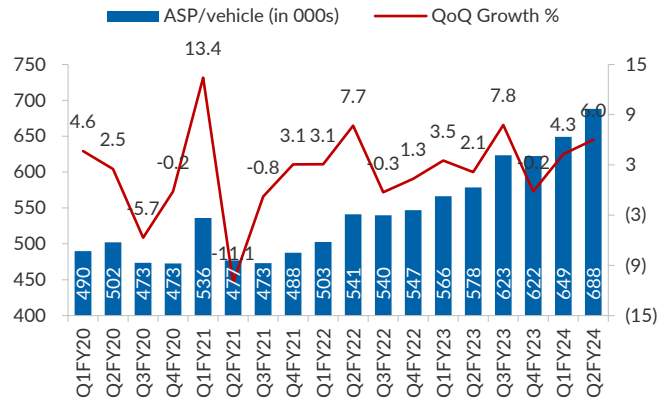
## CHARTS

**Exhibit 1: Volumes grew ~10.8% QoQ to 552k units**



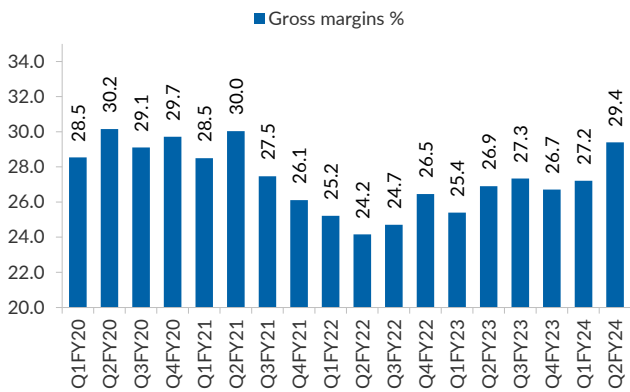
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**Exhibit 2: ASP grew ~16% YoY (+3.4% QoQ)**



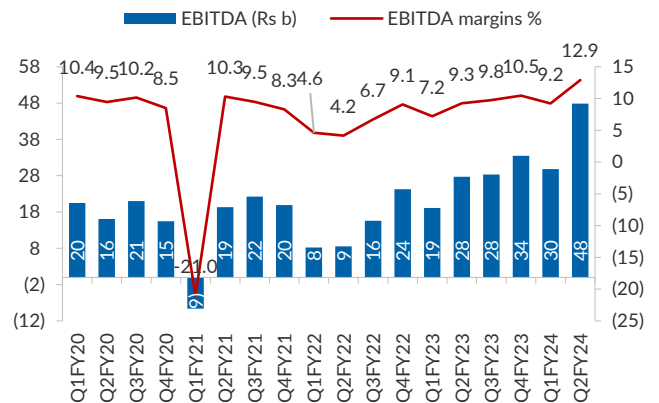
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**Exhibit 3: Gross margin expanded 220bp QoQ at 29.4%**



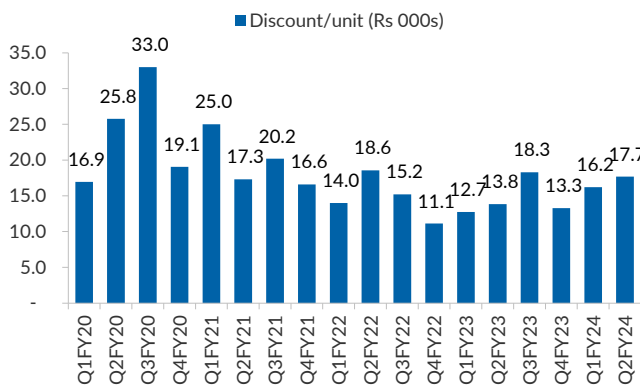
Source: Company, YES Sec

**Exhibit 4: Margins contracted 370bp QoQ at 12.9%**



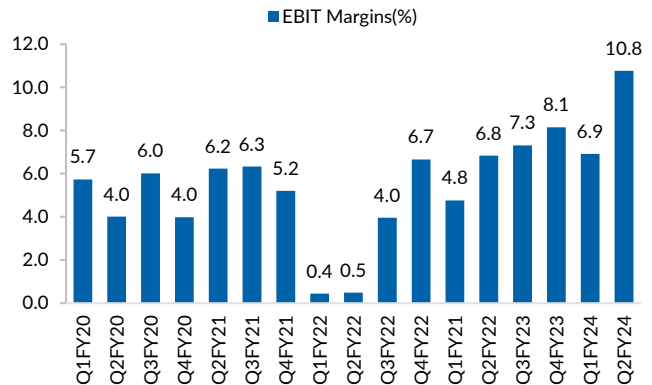
Source: Company, YES Sec

**Exhibit 5: 2QFY24 average discount/unit under control**



Source: Company, YES Sec

**Exhibit 6: EBIT Margin expanded 390bp QoQ at 10.8%**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 7: Balance Sheet

Y/E March (Rs mn)	2021	2022	2023	2024E	2025E
<b>Sources of Funds</b>					
Share Capital	1,510	1,510	1,510	1,510	1,510
Reserves	512,158	539,350	602,310	701,855	806,976
Net Worth	513,668	540,860	603,820	703,365	808,487
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	700,269	805,391
<b>Application of Funds</b>					
Gross Fixed Assets	314,553	324,892	394,890	492,971	542,971
Less: Depreciation	164,983	187,719	215,952	247,672	283,671
Net Fixed Assets	149,570	137,173	178,938	245,299	259,300
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	175,196	233,199
Inventory	30,500	35,331	42,838	51,341	56,716
Sundry Debtors	12,766	20,301	32,958	27,012	29,840
Cash & Bank Balances	30,364	30,362	377	22,634	57,651
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	227,790	229,672
Sundry Creditors	167,273	172,163	205,586	211,413	212,149
Other Liabilities	-	-	-	-	-
Provisions	11,006	15,121	16,337	16,377	17,523
Net Current Assets	(64,402)	(34,897)	(83,859)	(52,594)	3,527
Appl. of Funds	517,933	539,203	600,724	700,269	805,391

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	1,408,504	1,555,964
Change (%)	-7.0	25.5	33.1	19.8	10.5
EBITDA	53,453	57,012	110,077	170,803	186,343
EBITDA Margins (%)	7.6	6.5	9.4	12.1	12.0
Depreciation	30,315	27,865	28,233	31,720	35,999
EBIT	23,138	29,147	81,844	139,083	150,343
Interest	1,008	1,259	1,866	1,829	1,920
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	168,510	177,372
Tax	9,297	8,160	21,099	38,757	39,022
Effective tax Rate (%)	18.0	17.8	20.8	23.0	22.0
PAT	42,297	37,663	80,492	129,753	138,350
Change (%)	(25.1)	(11.0)	113.7	61.2	6.6
Adj. PAT	42,297	37,663	80,492	129,753	138,350
Change (%)	(25.1)	(11.0)	113.7	61.2	6.6

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	168,510	177,372
Interest	1,008	1,259	1,866	1,829	1,920
Depreciation	30,315	27,865	28,233	31,720	35,999
Direct Taxes Paid	(10,107)	(11,769)	(22,313)	(38,757)	(39,022)
(Inc)/Dec in WC	43,352	(28,098)	3,787	(9,009)	(21,103)
Other Items	(27,774)	(17,168)	(20,884)	(31,256)	(28,949)
CF from Oper. Activity	88,388	17,912	92,280	123,037	126,218
(Inc)/Dec in FA	(23,278)	(33,227)	(62,474)	(80,000)	(50,000)
Free Cash Flow	65,110	(15,315)	29,806	43,037	76,218
(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)	(1,829)	(1,920)
Dividends Paid	(18,125)	(13,594)	(18,125)	(30,208)	(33,229)
CF from Fin. Activity	(15,408)	(16,025)	(12,084)	(32,037)	(35,149)
Inc/(Dec) in Cash	141	(3)	14	22,256	35,018
Add: Op. Balance	182	323	320	377	22,634
Closing Balance	323	320	334	22,633	57,651

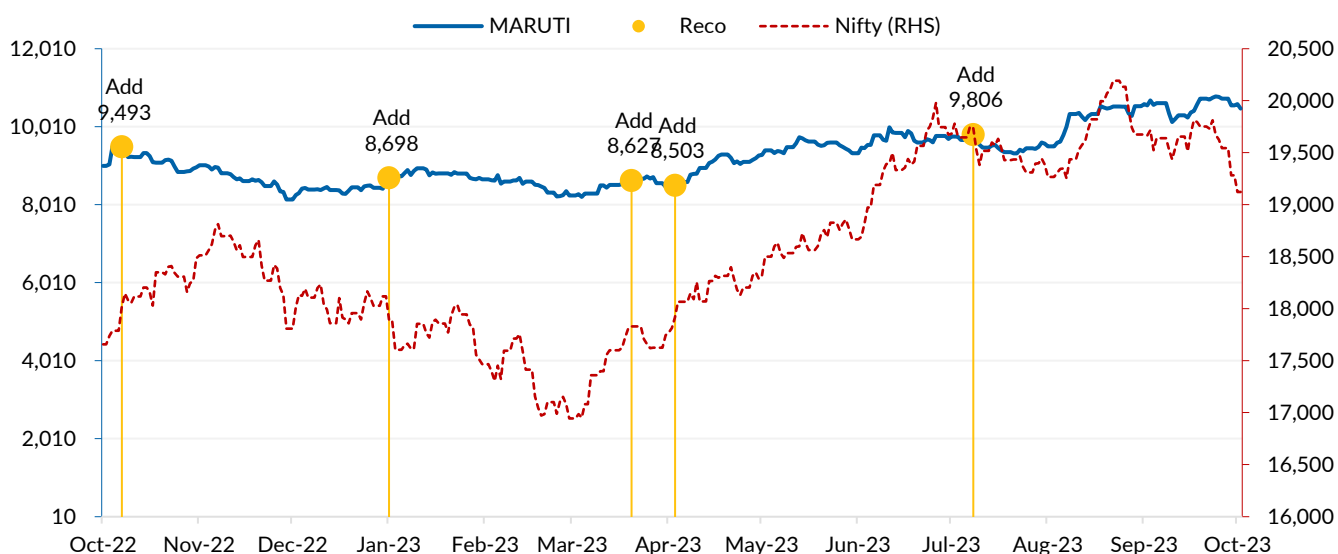
Source- Company, Yes Sec

## Exhibit 10: Ratios

Y/E March	2021	2022	2023	2024E	2025E
<b>Basic (INR)</b>					
Adjusted EPS	140.0	124.7	266.5	429.5	458.0
Consol EPS	147.0	132.2	274.6	438.3	467.4
Cash EPS	240.4	216.9	359.9	534.5	577.2
Book Value per Share	1,700.4	1,790.5	1,998.9	2,328.4	2,676.4
DPS	45.0	60.0	90.0	100.0	110.0
Div. payout (%)	32.1	48.1	33.8	23.3	24.0
<b>Valuation (x)</b>					
Consol. P/E	71.8	79.8	38.4	24.1	22.6
Cash P/E	43.9	48.6	29.3	19.7	18.3
EV/EBITDA	51.3	48.2	24.6	15.6	13.9
EV/Sales	3.9	3.1	2.3	1.9	1.7
P/BV	6.2	5.9	5.3	4.5	3.9
Dividend Yield (%)	0.4	0.6	0.9	0.9	1.0
FCF Yield (%)	2.0	(0.5)	0.9	1.4	2.4
<b>Profitability Ratios (%)</b>					
RoIC	19.3	28.0	57.9	70.7	59.3
RoE	8.2	7.0	13.3	18.4	17.1
RoCE	4.6	5.5	14.4	21.4	20.0
<b>Turnover Ratios</b>					
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	54.8	49.8
Work. Cap. (Days)	(64.4)	(48.2)	(40.3)	(34.5)	(29.5)
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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1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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