

Maruti Suzuki

Recent correction offer upside; upgrade to BUY

Valuation and View – CNG to help drive industry outperformance

MSIL's 2QFY25 results were weak as it reported ~7%/6% EBITDA miss to our/street estimates led by weak gross margins at 28.1% (est 29.5%). Lower than expected EBITDA at Rs44.2b (est Rs47.8b) was led by; 1) ~70bp drag due to higher A&P, 2) ~50bp RM impact, 3) increased discounts (on wholesales) at ~Rs29.3k/unit (vs ~Rs21.7k/unit in 1QFY25) at ~4.3% of ASP. However, this was offset by 30-40bp positive operating leverage. This led EBITDA/vehicle came off-peak at ~Rs81.6k/unit (-6% YoY/QoQ). Going ahead, increase in share of CNG, peak average discounts led by optimal inventory, stable RM and favorable mix are the positive margins triggers as volumes are likely to be muted led by industry growth dynamics. MSIL would likely outperform the industry led by strong CNG portfolio with ~33% contribution vs 27% in 4QFY24.

We believe going forward, despite volume growth is expected to moderate, MSIL margins to likely remain to expand to ~12.6% (vs ~12% in 2QFY25). This will be led by, i) favorable mix, ii) moderate to stable RM inflation and iii) peak average discounts. Consequently, we build in revenue/EBITDA/PAT CAGR of 7%/9.9%/10.2% over FY24-27E. Led by sharp valuations contraction and risk reward turning favorable, we upgrade the stock to BUY (from ADD) with revised roll forwarded TP of Rs13,485 (vs Rs14,587) valuing the stock at 24x Mar-27 EPS (v/s Sep-26). We cut FY25/FY26E/27E EPS by ~2-6% to factor in for weak gross margins and higher discounts, partly offset by higher other income led by +fx.

Result Highlights – Higher A&P, RM dent margins

- Revenues grew ~0.4% YoY (+4.7% QoQ) at ~Rs372b (in-line) led by 2.3% YoY (+0.9% QoQ) growth in ASPs at Rs686.9k/unit (in-line) while volumes de-grew 1.9% YoY (+3.8% QoQ) at ~541.6k units. Average discounts (on wholesales) highest at ~Rs29.3k/unit (vs ~Rs21.7k/unit in 1QFY25) at ~4.3% of ASP.
- Gross margins contracted 130bp YoY (-170bp QoQ) at 28.1 (est 29.5%), impacted by higher A&P spend (~70bp QoQ) and RM inflation (~50bp QoQ).
- Consequently, EBITDA de-grew ~7.7% YoY (-1.9% QoQ) at ~Rs44.2b (est ~Rs47.8b) with margins contracted 100bp YoY (-80bp QoQ) at 11.9% (est 12.8%, cons 12.7%). This was led by higher A&P and RM inflation impact of ~120bp QoQ, increased average discounts offset by 30-40bp positive operating leverage. Royalty rate for 2QFY25 at 3.4% (vs 3.5% in 1QFY25 and 3.5% in 4QFY25).
- Higher other income at ~Rs14.7b (est ~Rs9.5b, +51.3% QoQ) offset by higher tax at Rs20.3b due to withdrawal of the indexation benefit, led Adj. PAT came in lower at ~Rs30.7b (est Rs38.4b, -17.4% YoY, -15.9% QoQ).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	372,028	372,033	372,290	0.0	-0.1	Higher A&P, RM inflation dent margins.
EBITDA	44,166	47,776	47,121	-7.6	-6.3	
EBITDA margins %	11.9	12.8	12.7	-100bp	-80bp	
Adj PAT	30,692	38,439	37,096	-20.2	-17.3	

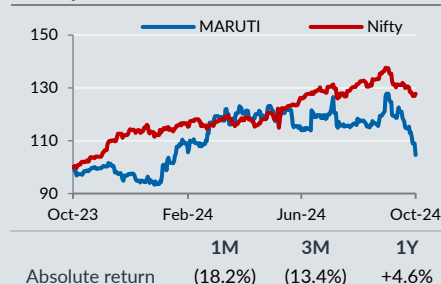
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 11,010
Target Price	: Rs 13,485
Return	: +22.5%

Stock data (as on October 29, 2024)

Nifty	24,467
52 Week h/l (Rs)	13,680 / 9,738
Market cap (Rs/USD mn)	36,16,526 / 43,036
Outstanding Shares (mn)	314
6m Avg t/o (Rs mn):	6,983
Div yield (%):	1.0
Bloomberg code:	MSIL IN
NSE code:	MARUTI

Stock performance



Shareholding pattern (As of Sep'24 end)

Promoter	58.2%
FII+DII	38.5%
Others	3.3%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	13,485	14,587

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	434.9	518.9
EPS (Old)	461.9	531.7
% change	(5.9%)	(2.4%)

Financial Summary

Y/E MAR (Rs b)	2025E	2026E	2027E
Sales	1,453	1,605	1,732
EBITDA	176	198	218
Adj. PAT	137	163	177
EPS	435	519	562
EPS Gr. (%)	3.5	19.3	8.3
BV/Sh.	2,976	3,355	3,777
RoE (%)	14.6	15.5	14.9
RoCE (%)	16.4	16.6	16.1
Payout (%)	29.9	27.0	24.9
P/E (x)	25.3	21.2	19.6
P/BV (x)	3.7	3.3	2.9
EV/EBITDA (x)	15.5	13.5	12.1
Div Yield (%)	1.2	1.3	1.3

DEEP SHAH

Lead Analyst

deep.shah@ysil.in



MEGHNA GUNDU, Associate

Exhibit 2: Quarterly snapshot

Y/e Mar (Rs m)	Q2FY25	Q2FY24	YoY chg (%)	Q1FY25	1HFY25	1HFY24	YoY chg (%)
Net Revenues	372,028	370,621	0.4	355,314	727,342	693,890	4.8
Raw Materials	267,459	261,690	2.2	249,329	516,788	497,007	4.0
% of Net Sales	71.9%	70.6%		70.2%	71.1%	71.6%	
Personnel	14,688	13,127	11.9	15,576	30,264	27,736	9.1
% of Net Sales	3.9%	3.5%		4.4%	4.2%	4.0%	
Manufacturing & Other Exp	45,715	47,962	(4.7)	45,386	91,101	91,475	(0.4)
% of Net Sales	12.3%	12.9%		12.8%	12.5%	13.2%	
Total Expenditure	327,862	322,779	1.6	310,291	638,153	616,218	3.6
EBITDA	44,166	47,842	(7.7)	45,023	89,189	77,672	14.8
EBITDA Margin (%)	11.9%	12.9%		12.7%	12.3%	11.2%	
Depreciation	7,509	7,941	(5.4)	7,310	14,819	15,416	(3.9)
EBIT	36,657	39,901	(8.1)	37,713	74,370	62,256	19.5
Interest Expenses	402	351	14.5	573	975	816	19.5
Non-operating income	14,750	8,436	74.8	9,751	24,501	18,448	32.8
PBT	51,005	47,986	6.3	46,891	97,896	79,888	22.5
Tax-Total	20,313	10,821	87.7	10,392	30,705	17,872	71.8
Tax Rate (%) - Total	39.8%	22.6%		22.2%	31.4%	22.4%	
Reported PAT	30,692	37,165	(17.4)	36,499	67,191	62,016	8.3
Adj. PAT	30,692	37,165	(17.4)	36,499	67,191	62,016	8.3
PAT Margin	8.2%	10.0%		10.3%	9.2%	8.9%	

Key Operating Metrics

Sales Volume (nos)	541,550	552,055	(1.9)	521,868	1,063,418	1,050,085	1.3
Net Realisation/Vehicle	686,969	671,348	2.3	680,850	683,966	660,794	3.5
Material cost / vehicle	493,877	474,029	4.2	477,763	485,969	473,302	2.7
Gross Profit / vehicle	193,092	197,319	(2.1)	203,088	197,997	187,492	5.6
Employee cost /vehicle	27,122	23,778	14.1	29,847	28,459	26,413	7.7
Other expenses / vehicle	84,415	86,879	(2.8)	86,968	85,668	87,112	(1.7)
EBITDA/vehicle	81,555	86,662	(5.9)	86,273	83,870	73,967	13.4
Net Profit/vehicle	56,674	67,321	(15.8)	69,939	63,184	59,058	7.0

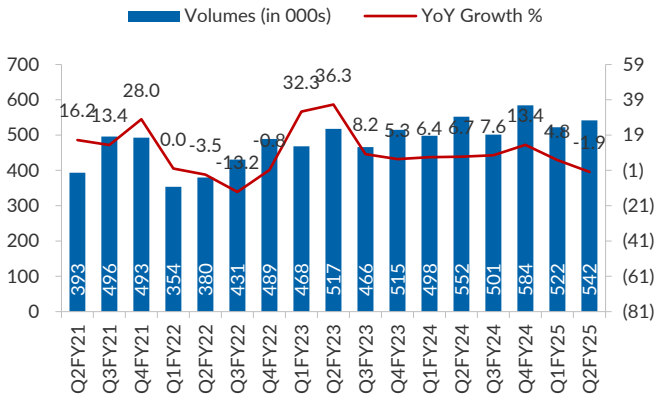
Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Outlook** – Demand for PV remained muted in 2QFY25 with retail sales at par YoY at ~420k units. Festive sales were healthy backed by higher A&P spends.
 - **Festive period (from the start of Sharad till Diwali) retails are expected to grow ~14% YoY to ~297k (vs ~260k YoY).**
 - **YTDFY25 (till Oct), retails are expected to grow +3.9% YoY (in-line to slightly lower to industry) and expect 3-4% for FY25.**
 - **Rural demand is doing better than urban.** SUVs are growing faster with share of the same at ~54%. Able to arrest decline in small car segment with the launch of limited-edition variants.
 - **No major change in demand patterns within sub segments and customer class.**
- **Post festive inventory expected to be within ~1 month by end of Oct'24.** Hence expect pressure on discount should not persist.
- **Margins impact** – Higher sales promotion impact of ~70bp QoQ, RM impact of ~50bp QoQ, op leverage +30-40bp QoQ, forex favorable impact of +60bp (hedging gain part of non op income),
- **RM basket is trending stable currently and expect to be stable QoQ in 3QFY25.**
- **Average discounts (at wholesales) increased to ~Rs29.3k/unit (vs ~Rs21.7k/unit in 1QFY25, Rs14.5k/unit in 4QFY24 and Rs16.2k/unit).**
 - **As retails are higher than wholesales in 2QFY25, discounts appear to be higher.**
- **Royalty** was at 3.4% of sales (vs ~3.5% in 1QFY25 and ~3.5% 4QFY25).
- **Expect to extend Hybrid technology to wider portfolio** – Some states like Haryana (~25% waiver on road tax), Chandigarh (~50% waiver on road tax), Rajasthan and Chhattisgarh currently have waiver for Hybrids. Among the others, few states have provision for hybrids which are yet to implemented.
- **CNG share in overall domestic volumes at ~33% for MSIL with ~14 models (vs ~33% in 1QFY25, ~26.9% in 4QFY24 vs 30.2% in 3QFY24).** In the medium term, expect CNG penetration to increase as dispensing infra is increasing.
- **EV** – Will be high spec (for customer confidence), battery 60kWh, made in India for the world and to be exported to Japan and Europe. Expect to start campaign for first EV.
- **Network** – Recently inaugurated 500th NEXA showroom and have serviced ~2.7m customers in >300 cities. Overall network stands at 3,925 outlets in >2,500 towns and cities.
- **Capacity** – Plant in Kharkhoda on track and SOP expected by end of FY25.
- **Exports** – MSIL commanded ~40% of market share in 1HFY25. 2QFY25 exports revenues at Rs52.61b.
 - **Fronx** is the first SUV to be launched in Japan which is made in India
- **Provision of Rs8,376m** was due to withdrawal of indexation benefit.
- **Amalgamation of SMG** expected by Apr'25.

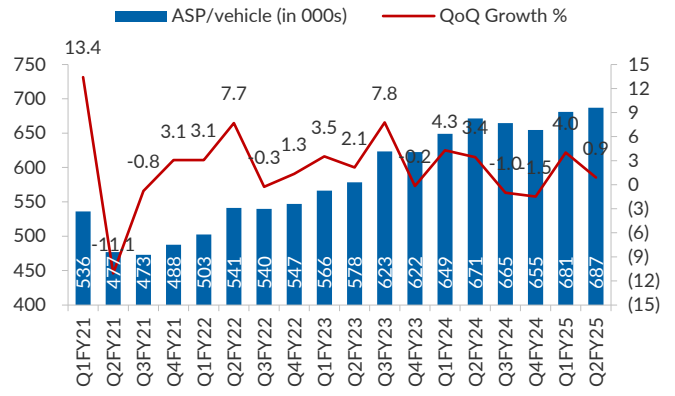
CHARTS

Exhibit 1: Volumes de-grew 1.9% YoY to ~541.6k units



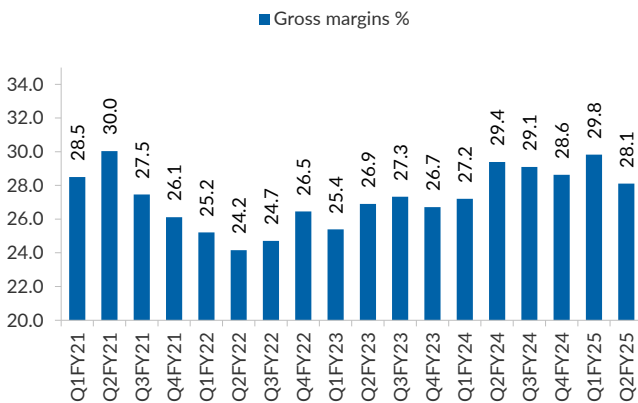
Source: Company, YES Sec

Exhibit 2: ASP grew 2.3% YoY at ~Rs686.9k



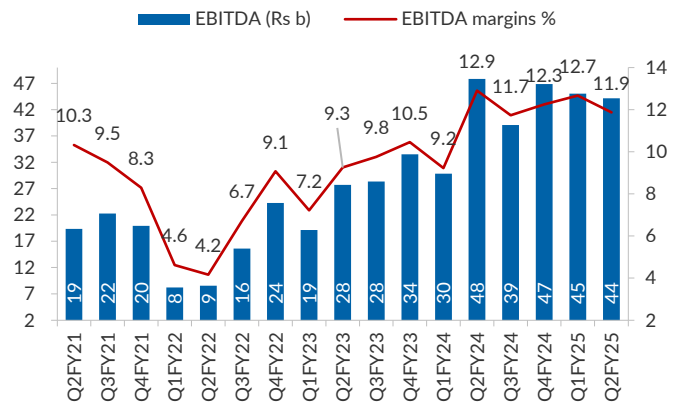
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Exhibit 3: GMs contracted ~130bp YoY at 28.1%



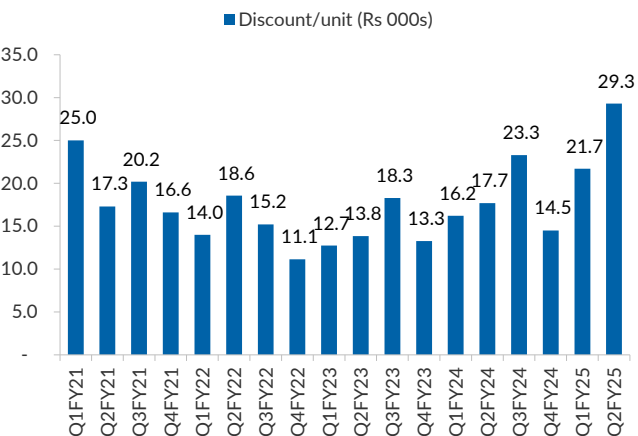
Source: Company, YES Sec

Exhibit 4: Margins contracted ~100bp YoY at 11.9%



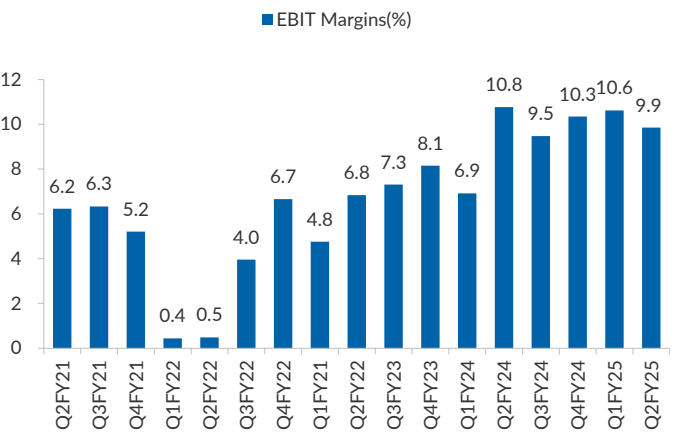
Source: Company, YES Sec

Exhibit 5: Average discount/unit at its peak



Source: Company, YES Sec

Exhibit 6: EBIT Margin contracted ~90bp YoY at 9.9%



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/E March	2022	2023	2024	2025E	2026E	2027E
Sources of Funds						
Share Capital	1,510	1,510	1,572	1,572	1,572	1,572
Reserves	539,350	602,310	838,248	934,095	1,053,208	1,185,851
Net Worth	540,860	603,820	839,820	935,667	1,054,780	1,187,423
Loans	370	315	855	855	855	855
Deferred Tax Liability	(2,027)	(3,411)	(1,124)	(1,124)	(1,124)	(1,124)
Capital Employed	539,203	600,724	839,551	935,398	1,054,511	1,187,154
Application of Funds						
Gross Fixed Assets	324,892	380,545	413,278	546,312	626,312	706,312
Less: Depreciation	187,719	201,607	226,020	256,434	289,306	326,278
Net Fixed Assets	137,173	178,938	187,258	289,878	337,006	380,034
Capital WIP	29,294	28,081	63,034	10,000	10,000	10,000
Investments	407,633	477,564	685,137	720,137	755,137	790,137
Curr.Assets, Loans	152,387	138,064	160,856	157,246	195,923	240,465
Inventory	35,331	42,838	41,196	42,474	46,922	56,944
Sundry Debtors	20,301	32,958	46,013	27,866	30,785	33,217
Cash & Bank Balances	30,362	377	4,600	4,115	18,934	31,230
Loans & Advances	307	299	328	328	328	328
Others	66,086	61,592	68,719	82,463	98,955	118,746
Current Liab. & Prov.	187,284	221,923	256,734	241,863	243,555	233,483
Sundry Creditors	172,163	205,586	236,629	222,990	224,207	212,577
Provisions	15,121	16,337	20,105	18,873	19,348	20,905
Net Current Assets	(34,897)	(83,859)	(95,878)	(84,617)	(47,631)	6,982
Appl. of Funds	539,203	600,724	839,551	935,398	1,054,511	1,187,154

Source: Company, YES Sec

Exhibit 8: Income statement

Y/E March	2022	2023	2024	2025E	2026E	2027E
Net Op Income	882,956	1,175,229	1,409,326	1,453,030	1,605,201	1,732,032
Change (%)	25.5	33.1	19.9	3.1	10.5	7.9
EBITDA	57,012	110,077	164,011	176,215	198,460	217,877
EBITDA Margins (%)	6.5	9.4	11.6	12.1	12.4	12.6
Depreciation	27,865	28,233	30,223	30,414	32,872	36,971
EBIT	29,147	81,844	133,788	145,801	165,587	180,905
Interest	1,259	1,866	1,932	1,938	1,957	1,977
Other Income	17,936	21,613	38,548	46,024	48,226	50,498
PBT	45,824	101,591	170,404	189,887	211,856	229,426
Tax	8,160	21,099	38,310	53,168	48,727	52,768
Effective tax Rate (%)	17.8	20.8	22.5	28.0	23.0	23.0
PAT	37,664	80,492	132,094	136,719	163,129	176,658
Change (%)	(11.0)	113.7	64.1	3.5	19.3	8.3
Adj. PAT	37,664	80,492	132,094	136,719	163,129	176,658
Change (%)	(11.0)	113.7	64.1	3.5	19.3	8.3

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/E March	2022	2023	2024	2025E	2026E	2027E
Profit before Tax	45,823	101,591	170,404	189,887	211,856	229,426
Interest	1,259	1,866	1,932	1,938	1,957	1,977
Depreciation	27,865	28,233	30,223	30,414	32,872	36,971
Direct Taxes Paid	(11,769)	(22,313)	(35,557)	(53,168)	(48,727)	(52,768)
(Inc)/Dec in WC	(28,098)	3,787	22,777	(11,746)	(22,168)	(42,317)
Other Items	(17,168)	(20,884)	(38,109)	(46,024)	(48,226)	(50,498)
CF from Oper. Activity	17,912	92,280	151,670	111,301	127,565	122,791
(Inc)/Dec in FA	(33,227)	(62,474)	(69,637)	(80,000)	(80,000)	(80,000)
Free Cash Flow	(15,315)	29,806	82,033	31,301	47,565	42,791
(Pur)/Sale of Invest.	31,337	(17,708)	(37,191)	11,024	13,226	15,498
CF from Inv. Activity	(1,890)	(80,182)	(106,828)	(68,976)	(66,774)	(64,502)
Inc/(Dec) in Debt	(1,140)	7,895	(11,960)	-	-	-
Interest Paid	(1,291)	(1,854)	(1,472)	(1,938)	(1,957)	(1,977)
Dividends Paid	(13,594)	(18,125)	(27,187)	(40,872)	(44,016)	(44,016)
CF from Fin. Activity	(16,025)	(12,084)	(40,619)	(42,810)	(45,973)	(45,993)
Inc/(Dec) in Cash	(3)	14	4,223	(485)	14,818	12,297
Add: Op. Balance	323	320	334	4,600	4,115	18,934
Closing Balance	320	334	4,557	4,115	18,934	31,230

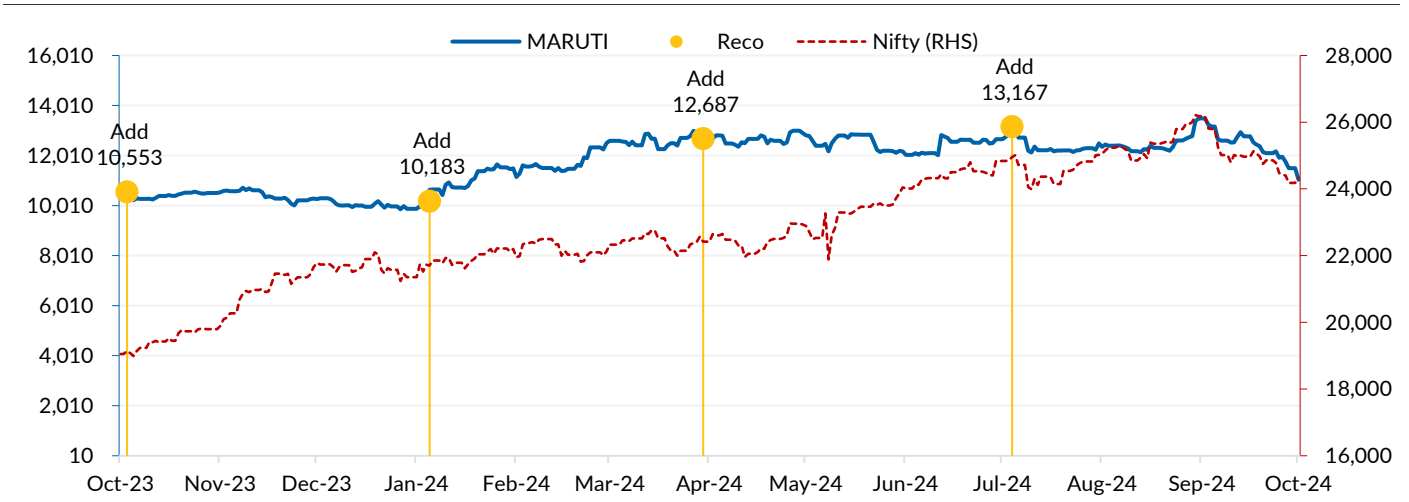
Source- Company, YES Sec

Exhibit 10: Ratios

Y/E March	2022	2023	2024	2025E	2026E	2027E
Basic (Rs)						
Adjusted EPS	124.7	266.5	420.1	434.9	518.9	561.9
Consol EPS	132.2	274.6	428.5	443.9	518.9	561.9
Cash EPS	216.9	359.9	516.3	531.6	623.4	679.5
Book Value per Share	1,790.5	1,998.9	2,671.2	2,976	3,355	3,777
DPS	60.0	90.0	125.0	130.0	140.0	140.0
Div. payout (%)	48.1	33.8	29.8	29.9	27.0	24.9
Valuation (x)						
Consol. P/E	83.3	40.1	25.7	24.8	21.2	19.6
Cash P/E	50.8	30.6	21.3	20.7	17.7	16.2
EV/EBITDA	50.7	25.9	16.9	15.5	13.5	12.1
EV/Sales	3.3	2.4	2.0	1.9	1.7	1.5
P/BV	6.1	5.5	4.1	3.7	3.3	2.9
Dividend Yield (%)	0.5	0.8	1.1	1.2	1.3	1.3
FCF Yield (%)	(0.5)	0.9	2.5	0.9	1.4	1.3
Profitability Ratios (%)						
RoIC	28.0	57.9	76.1	58.2	51.9	43.1
RoE	7.0	13.3	15.7	14.6	15.5	14.9
RoCE	5.5	14.4	18.6	16.4	16.6	16.1
Turnover Ratios						
Debtors (Days)	8.4	10.2	11.9	7	7	7
Inventory (Days)	14.6	13.3	10.7	11	11	12
Creditors (Days)	71.2	63.9	61.3	56	51	45
Work. Cap. (Days)	(48.2)	(40.3)	(38.7)	-38	-33	-26
Asset Turnover (x)	1.2	1.4	1.3	1.2	1.2	1.2

Source- Company, YES Sec

Recommendation Tracker



Source - YES Sec

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Details of Compliance Officer: Aditya Goenka | Email: compliance@ysil.in / Contact No.: 022-65078127 | Grievances Redressal Cell: customer.service@ysil.in / igc@ysil.in

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Analyst signature

Analyst signature

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