

MARUTI SUZUKI INDIA LIMITED

Weak set of numbers, challenging times ahead

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Maruti Suzuki reported Q2 FY25 EBITDA of ₹44.2 bn, 8% down yoy, below market estimates, led by lower than-expected gross margins. Revenues were flat yoy, as a 2% yoy increase in ASPs was offset by similar yoy decline in volumes. EBITDA margin came in at 11.7%, which was 100 bps below yoy due to weaker-than-expected gross margins, owing to higher discounts and commodity tailwinds. Net profit came in at ₹30 bn, 19.4% yoy down, while higher taxation was partly offset by higher other income. The company reported higher tax rate of 39.8% on account of a ₹8.4 bn provision made by the company due to withdrawal of an indexation benefit on capital gains on debt mutual funds.

Management expects retail volumes to grow by 3-4% in FY 25

MSIL highlighted that retail volumes grew 14% yoy on a like-to-like basis from the start of Shradh period until Diwali. While the retail sales data, according to Vahaan, indicates flat growth for the PV industry during the festive season, the company has witnessed a pick-up in sales during the past few days, partly driven by a sharp uptick in discounts. It indicated that the overall retail volumes until date for the company grew 3.9% yoy in FY 25. However, we believe the retail volume growth is not comparable, as the festivals during the current year are preponed and we need to monitor the cumulative retail sales until November to get an accurate picture of the demand trends in the domestic PV market. The company expects the industry retail volumes to grow 3-4% yoy in FY25E; however, we believe the retail sales to grow 1-2% yoy in FY25E, given muted demand trends in the non-festive period, while we expect the wholesale sales to remain flat in the same period. It also indicated that the inventory levels by the end of the month to reach to normal levels of 28-30 days.

Slowdown in PV industry is expected to continue

We expect the domestic PV industry wholesale volumes to decline 1% yoy or remain flattish in FY25E, owing to (1) high inventory levels due to weak demand trends, (2) moderation in demand for SUV segments on account of higher base and receding order book, (3) continued weakness in demand in entry-level car segments and (4) a high base. We expect the domestic passenger vehicle volumes of the company to decline 1% yoy in FY2025E due to (1) decline in volumes of entry level cars where MSIL has a higher market share and volume contribution (~40%), (2) increase in competitive intensity in the SUV segment, with new/refresh launches by the competition at aggressive price points. Overall, we expect the company's domestic passenger vehicle volumes to grow at lower single digit over FY24-27E.

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Total sales (₹ mn)	1,175.2	1,409.3	1,519.3	1,655.5
EBITDA margins(%)	9.8	12.2	11.8	12.0
PAT margins (%)	7.2	9.8	9.6	9.6
EPS (₹)	266.5	437.4	463.5	508.1
P/E (x)	41.6	25.3	23.9	21.8
P/BV (x)	5.5	4.1	3.7	3.2
EV/EBITDA (x)	30.4	21.2	20.3	18.1
ROE (%)	13.3	15.7	14.7	14.3
Dividend yield (%)	0.6	0.8	0.9	1.0

HOLD

Current Market Price (₹) :	11,256
12M Price Target (₹) :	11,130
Potential Return (%) :	1%

Stock Data

Sector :	Automobile & Auto Components
FV (₹) :	5
Total Market Cap (₹ bn) :	3,493
Free Float Market Cap (₹ bn) :	1,457
52-Week High / Low (₹) :	13,680 / 9,738
BSE Code / NSE Symbol	532500 / MARUTI
Bloomberg :	MSIL IN

Shareholding Pattern

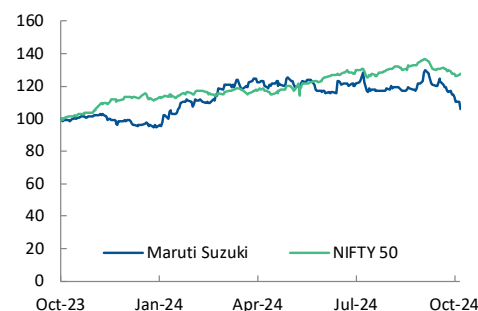
(%)	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	58.19	58.19	58.19	58.19
FPIs	17.68	18.98	19.65	20.60
MFs	14.38	13.26	12.67	11.83
Insurance	5.43	4.90	4.91	4.42
Others	4.32	4.67	4.58	4.96

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Maruti Suzuki	-15.0%	-12.6%	-12.2%	8.3%
Nifty 50	-5.7%	-2.1%	7.7%	27.2%

* To date / current date : October 30, 2024

Maruti Suzuki vs Nifty 50

MSIL may report decline in market share over FY25-27E

The company's market share declined 180 bps yoy to 40.4% in H1 FY25 owing to (1) new/refresh launches by the competition (XUV 3XO, Curvv, Thar 5-door and Alcazar) and (2) continued underperformance of the hatchback and sedan segments, where the company is a market leader. We expect Maruti Suzuki's market share to fall in the range of 40-40.5% over FY2025-27E, given (1) launches by the competition is expected to continue over the next few quarters in various powertrains, especially in the SUV and MUV segments and (2) decline in the hatchback and sedan segment's volumes where the company is market leader.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Total income	3,72,028	3,55,314	4.7	3,70,621	0.4
Raw material costs	2,67,459	2,49,329	7.3	2,61,690	2.2
Employee costs	14,688	15,576	(5.7)	13,127	11.9
Other expenses	46,439	45,386	2.3	47,962	(3.2)
EBITDA	43,442	45,023	(3.5)	47,842	(9.2)
EBITDA margins %	11.7%	12.7%	(100 bps)	12.9%	(120 bps)
Depreciation & Amortization	7,509	7,310	2.7	7,941	(5.4)
Interest expenses	402	573	(29.8)	351	14.5
Other income	14,750	9,751	51.3	8,436	74.8
PBT	50,281	46,891	7.2	47,986	4.8
Tax	20,313	10,392	95.5	10,821	87.7
Adjusted PAT	29,968	36,499	(17.9)	37,165	(19.4)
Exceptional items	-	-	NA	-	NA
Reported PAT (₹)	29,968	36,499	(17.9)	37,165	(19.4)

Source: Company, LKP Research

Outlook and valuation

While the company has indicated positive trends during the festive season (14% yoy), partly driven by higher discounts, we expect the wholesale volume trend to remain muted in the near term, given the weak consumer sentiment, continued weakness in the entry level segment demand and higher base. We also believe it will be challenging for MSIL to gain market share. Our target price factors in stagnated sales in small cars, non-EV portfolio risk, limited scope of margin expansion and overall moderate volume in the PV industry environment. We find limited upside potential with positives largely factored in. We have upgraded the stock to HOLD despite muted PV industry, in view of recent price correction. Therefore we arrive at a price target of ₹11,130 valued at 22x FY 26E earnings (v's current multiple of 22x).

Risks

- Sales to OEMs (Toyota) are growing at a good pace (87% YTD Sep) have a good potential to grow from here though they are small contributors to the overall volumes.
- Reduction of taxation on hybrid vehicles may act as a positive risk.
- Launches in SUV and CNG expansion (1/3rd of volumes) can take on competitors head on , thus leading to volume pick up.

Per unit parameters	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Net Realisation/unit	5,97,736	5,98,566	6,19,344	6,43,688	6,35,666	6,28,348	6,49,343	6,57,232
Material Cost/unit	4,53,001	4,56,131	4,72,496	4,74,029	4,71,214	4,67,242	4,77,929	4,93,922
Employee cost per unit	25,777	21,615	29,334	23,778	26,708	23,393	29,857	27,125
EBITDA/unit	60,808	65,064	59,896	86,662	77,970	80,218	86,303	80,225
PAT/unit	50,467	50,951	49,899	67,321	62,449	66,397	69,964	55,343

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	11,75,229	14,09,326	15,19,321	16,55,521
Raw Material Cost	8,62,435	10,06,067	10,79,898	11,76,019
Employee Cost	46,051	54,784	62,751	66,928
Other Exp	1,58,039	1,86,352	2,07,224	2,23,093
EBITDA	1,10,077	1,64,011	1,71,649	1,91,882
<i>EBITDA Margin(%)</i>	<i>9.8</i>	<i>12.2</i>	<i>11.8</i>	<i>12.0</i>
Other Income	21,613	38,548	45,000	43,000
Depreciation	28,233	30,223	31,508	34,405
EBIT	1,03,457	1,72,336	1,85,142	2,00,477
<i>EBIT Margin(%)</i>	<i>9.2</i>	<i>12.8</i>	<i>12.7</i>	<i>12.6</i>
Interest	1866	1932	1700	1700
PBT	1,01,591	1,70,404	1,83,442	1,98,777
<i>PBT Margin(%)</i>	<i>9.0</i>	<i>12.6</i>	<i>12.6</i>	<i>12.5</i>
Tax	21,099	38,310	43,476	45,321
PAT	80,492	1,32,094	1,39,966	1,53,456
<i>PAT Margins (%)</i>	<i>7.2</i>	<i>9.8</i>	<i>9.6</i>	<i>9.6</i>
Minority interest	0	0	0	0
Exceptional items	0	0	0	0
Adj PAT	80,492	1,32,094	1,39,966	1,53,456
<i>Adj PAT Margins (%)</i>	<i>7.2</i>	<i>9.8</i>	<i>9.6</i>	<i>9.6</i>

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	266.5	437.4	463.5	508.1
CEPS	360.0	537.5	567.8	622.1
BVPS	1999.4	2671.2	3027.3	3417.8
DPS	62.7	94.1	96.9	106.2
Growth Ratios(%)				
Total revenues	34.3	19.9	8.1	9.2
EBITDA	93.1	49.0	4.7	11.8
PAT	113.7	64.1	6.0	9.6
EPS Growth	113.7	64.1	6.0	9.6
Valuation Ratios (X)				
PE	41.6	25.3	23.9	21.8
P/CEPS	30.8	20.6	19.5	17.8
P/BV	5.5	4.1	3.7	3.2
EV/EBITDA	30.4	21.2	20.3	18.1
Operating Ratios (Days)				
Inventory days	17.0	18.0	18.0	18.0
Receivable Days	8.0	8.0	9.0	9.0
Payables day	2.4	2.4	2.5	2.5
Net Debt/Equity (x)	0.02	0.00	0.00	0.00
Profitability Ratios (%)				
ROCE	9.5	10.9	9.7	10.3
ROE	13.3	15.7	14.7	14.3
Dividend payout	23.5	21.5	20.9	20.9
Dividend yield	0.6	0.8	0.9	1.0

Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Equity and Liabilities				
Equity Share Capital	1,510	1,572	1,572	1,572
Reserves & Surplus	6,02,310	8,38,248	9,50,221	10,72,985
Total Networth	6,03,820	8,39,820	9,51,793	10,74,557
Total debt	0	0	0	0
Net Deferred Tax	0	0	0	0
Other long term liabilities	25,849	31,616	31,616	31,616
Long term provisions	1,125	2,125	2,125	2,125
Current Liab & Prov				
Short term borrowings	12,158	331	531	731
Other current liabilities	60,993	71,066	71,066	71,066
Trade payables	1,17,804	1,45,824	1,75,918	1,96,462
Total provisions	10,038	12,066	12,066	12,066
Total current Liabilities	2,00,993	2,29,287	2,59,581	2,80,325
Total Equity & Liabilities	8,31,787	11,02,848	12,45,115	13,88,623
Assets				
Net block	1,66,666	1,74,314	2,32,806	2,83,402
Capital WIP	28,081	63,034	67,034	71,034
Intangible Assets	6,368	6,815	6,815	6,815
Non current Investments	4,77,564	6,46,015	7,51,015	8,31,015
Other non current assets	580	822	822	822
Total fixed assets				
Current investments	0	39,122	0	0
Cash and Bank	334	4,557	5,309	6,268
Bank balance other than cash	43	43	43	43
Inventories	42,838	41,196	44,379	51,552
Trade receivables	32,958	46,013	55,974	56,756
Loan, Advances & others	297	327	327	327
Other current assets	39,529	46,366	46,366	46,366
Total current Assets	1,15,999	1,77,624	1,52,398	1,61,311
Total Assets	8,31,787	11,02,848	12,45,115	13,88,623

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	1,01,591	1,70,404	1,83,442	1,98,777
Depreciation	28,233	30,223	31,508	34,405
Interest	1,866	1,932	1,700	1,700
Tax paid	(22,313)	(35,557)	(43,476)	(45,321)
Other operating activities	(20,884)	(38,109)	0	0
Cash flow from operations (a)	92,280	1,51,670	1,90,123	2,02,150
Capital expenditure	(61,154)	(67,269)	(94,000)	(89,000)
Chng in investments	(19,914)	(38,832)	(65,878)	(80,000)
Other investing activities	886	(727)	0	0
(Inc)/dec in Intangible assets	987	440	0	0
(Inc)/dec in Other non curr. assets	(369)	(1,825)	0	0
Cash flow from investing (b)	(80,182)	(1,06,828)	(1,59,878)	(1,69,000)
Free cash flow (a+b)	12,098	44,842	30,245	33,150
Equity raised/(repaid)	0	0	0	0
Inc/dec in borrowings	7,895	(11,960)	200	200
Dividend paid (incl. tax)	(18,125)	(27,187)	(27,993)	(30,691)
Other financing activities	(1,854)	(1,472)	(1,700)	(1,700)
Cash flow from financing (c)	(12,084)	(40,619)	(29,493)	(32,191)
Net chng in cash (a+b+c)	14	4,223	752	959
Closing cash & cash equivalents	334	4,557	5,309	6,268

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