

High base to limit growth in near to medium term...

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%)

Q2FY25 Results: MSIL reported muted performance in Q2FY25. Sales volume for the quarter stood at 5.4 lakh units, down 2% YoY. Total operating income for Q2FY25 came in at ₹ 37,203 crore with ensuing ASPs at ₹6.57 lakh/unit, up 1.2% QoQ. EBITDA margins for the quarter came in at 11.9%, down 80 bps QoQ. Consequent PAT in Q2FY25 came in at ₹3,069 crore, down ~17.4% YoY (includes an exceptional one-time deferred tax provision of ₹ 838 crore).

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
- Listing of Hyundai Motors India might limit valuation for MSIL:** Maruti Suzuki (MSIL) was the only pure play listed PV player domestically with rest of the PV players possessing other major revenue streams as well. However, with the recent listing of Hyundai Motors India (HML), investors now have a comforting choice of investing in India's 2nd largest pure play PV player possessing a better portfolio than MSIL (at ~63% of its domestic sales from SUVs vs ~36% for MSIL), realising better EBITDA margins and return ratios profile. With both the players slated to launch their flagship EV product in early CY25, we await more details before turning decisive positive on MSIL amidst comforting valuations of 20x PE on forward basis.

Rating and Target Price

- Maruti Suzuki is well placed to capitalize upon the underpenetrated PV space domestically. With capacity expansion underway, we expect Sales and PAT at MSIL to grow at a CAGR 9 % & 12 % respectively over FY24-27E. With growth tapering in near to medium term, we maintain our **HOLD** rating on the stock and value it at ₹ 12,450 i.e. **22x P/E on FY26-27E avg.**

Key Financial Summary

| Key Financials (₹ crore) | FY21 | FY22 | FY23 | FY24 | 5 year CAGR (FY19-24) | FY25E | FY26E | FY27E | 3 year CAGR (FY24-27E) |
|--------------------------|--------|--------|----------|----------|-----------------------|----------|----------|----------|------------------------|
| Total Operating Income | 70,333 | 88,296 | 1,17,523 | 1,40,933 | 10.4% | 1,54,094 | 1,68,168 | 1,83,857 | 9.3% |
| EBITDA | 5,345 | 5,701 | 11,008 | 16,401 | 8.3% | 18,971 | 21,059 | 23,200 | 12.3% |
| EBITDA Margins (%) | 7.6 | 6.5 | 9.4 | 11.6 | | 12.3 | 12.5 | 12.6 | |
| Net Profit | 4,230 | 3,766 | 8,049 | 13,209 | 12.0% | 14,641 | 17,085 | 18,510 | 11.9% |
| EPS (₹) | 140 | 125 | 266 | 420.1 | | 465.7 | 543.4 | 588.7 | |
| P/E | 81.1 | 91.0 | 42.6 | 27.0 | | 24.4 | 20.9 | 19.3 | |
| RoNW (%) | 8.2 | 7.0 | 13.3 | 15.7 | | 15.6 | 16.2 | 15.7 | |
| RoC (%) | 24.2 | 24.5 | 52.9 | 49.4 | | 51.0 | 44.5 | 37.7 | |

Source: Company, ICICI Direct Research



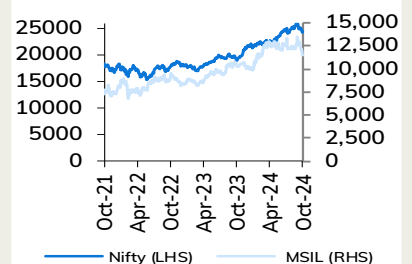
Particulars

| Particular | ₹ crore |
|-----------------------|----------------|
| Market Capitalization | 3,56,844 |
| Total Debt (FY24) | 33 |
| Cash & Invt. (FY24) | 53,780 |
| EV | 3,03,097 |
| 52 week H/L (₹) | 13,680 / 9,738 |
| Equity capital | ₹ 157.2 Crore |
| Face value | ₹ 5 |

Shareholding pattern

| | Dec-23 | Mar-24 | Jun-24 | Sep-24 |
|----------|--------|--------|--------|--------|
| Promoter | 58.2 | 58.2 | 58.2 | 58.2 |
| FII | 20.6 | 19.6 | 19.0 | 17.7 |
| DII | 17.6 | 18.9 | 19.4 | 20.8 |
| Other | 3.6 | 3.3 | 3.5 | 3.4 |

Price Chart



Recent event & key risks

- Reports muted performance in Q2FY25 with Margins at 11.9%.
- Key Risk: (i) rise in commodity prices limiting margin gains (ii) more than anticipated sales volume growth and currency tailwinds uplifting earnings.

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Q2FY25 Earnings Conference Call highlights

- Demand Outlook:** MSIL witnessed a positive demand trajectory during this festive season, with retail sales increasing by 14% YoY from the period starting from Shraadh till Diwali. Moreover, it is expected to report a growth of ~3.9% YoY in retail sales from April'24 to Oct'24. Consequently, it is projecting a 3% to 4% YoY growth in the retail space in FY25.
- Rural and Urban market:** In terms of demand scenario, rural market has been outperforming the urban markets with sales from rural space is positive, while urban sales have witnessed a marginal decline. This trend reflects an evolving preference of rural regions toward high end vehicles, such as SUVs given that small cars sales continue to remains muted. MSIL is expanding its presence in rural markets by increasing dedicated Nexa and Arena showrooms, thereby increasing product mix to meet the growing demand for SUVs and premium vehicles.
- Focus on CNG and Hybrid:** MSIL witnessed a strong customer adoption for CNG vehicles, with one in every three cars sold by Maruti being a CNG model. Additionally, MSIL benefits from state-level road tax rebates for hybrids in regions like Haryana and Chandigarh, thereby making these vehicles more attractive to customers. It will continue to expand its offerings in hybrid space.
- New Launches:** MSIL is enriching its product portfolio with its limited-edition launches and strategic additions, including S-CNG powertrain for the Swift model. Additionally, it plans to unveil a high-speed electric SUV with a 60 kWh of battery by early of CY25, which is also designed for exporting in key global markets such as Europe and Japan.
- Export:** Exports sales volume for the quarter stood at 77,716 units with growth rate of 12.1% YoY, Export revenue reached ~₹5,261 crore in Q2FY25. MSIL commands ~40% of India's PV exports market in H1FY25. It has commenced exports of the Fronx to Japan, marking the first SUV launched by any Indian player in Japan.

Discount and Inventory: MSIL has increased its average discount per car from ₹21,700 in Q1FY25 to ₹29,300 in Q2FY25, with an aim to remain competitive and attract buyers amidst muted market conditions. However, it anticipates discount levels will not be high in Q3FY25, as inventory levels are expected to remain stable, with end of Oct'24 inventory is projected to remain below one month's supply.

Amalgamation of Suzuki Motor Gujarat (SMG): The amalgamation of Suzuki Motor Gujarat (SMG) with MSIL, will be effective from April 2025, which is a strategic move to streamline operations under one entity. This integration is expected to strengthen the company's manufacturing capabilities, providing more flexibility to scale production in line with market demand.

Others: During this quarter, increase in sales promotion & commodity price impacted the EBITDA margin by 80 bps and 50 bps QoQ, respectively. MSIL expects commodity cost inflation to remain nearly flattish, going forward. Royalty expenses for Q2FY25 stood at 3.4% of sales.

Key tables and charts

Exhibit 1: Quarterly Analysis

| | Q2FY25 | Q2FY24 | YoY (Chg %) | Q1FY25 | QoQ (Chg %) | Comments |
|---------------------------|----------|----------|-------------|----------|-------------|--|
| Total Operating Income | 37,203 | 37,062 | 0.4 | 35,531 | 4.7 | Topline came in muted amidst 2% YoY decline in volumes at 5.4 lakh units |
| Raw Material Expenses | 26,746 | 26,169 | 2.2 | 24,933 | 7.3 | Gross margins declined due to higher commodities costs plus higher discounting |
| Employee Expenses | 1,469 | 1,313 | 11.9 | 1,558 | -5.7 | |
| Other expenses | 4,572 | 4,796 | -4.7 | 4,539 | 0.7 | Other expenses were contained at 12.3% |
| Operating Profit (EBITDA) | 4,417 | 4,784 | -7.7 | 4,502 | -1.9 | |
| EBITDA Margin (%) | 11.9 | 12.9 | -104 bps | 12.7 | -80 bps | EBITDA margins came in below street estimates tracking higher RM costs |
| Other Income | 1,475 | 844 | 74.8 | 975 | 51.3 | Other income was higher than usual trend |
| Depreciation | 751 | 794 | -5.4 | 731 | 2.7 | |
| Interest | 40 | 35 | 14.5 | 57 | -29.8 | |
| Total Tax | 2,031.3 | 1,082.1 | 87.7 | 1,039.2 | 95.5 | Higher tax outgo for the quarter includes one time DTL provisions amounting to ₹ 838 crore |
| PAT | 3,069 | 3,717 | -17.4 | 3,650 | -15.9 | |
| EPS | 97.6 | 123.0 | -20.7 | 116.1 | -15.9 | PAT decline was largely a function of EBITDA decline and DTL provisioning |
| Key Metrics | | | | | | |
| Sales Volume | 5,41,550 | 5,52,055 | -1.9 | 5,21,868 | 3.8 | Sales volume for the quarter was down 2% YoY at 5.4 lakh units (up 4% QoQ) |
| ASP (₹) | 6,57,171 | 6,43,688 | 2.1 | 6,49,116 | 1.2 | |
| Discounts (₹) | 29,300 | 17,700 | 65.5 | 21,700 | 35.0 | Discounts were higher to drive retail sales |

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

| | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Volumes (lakh units) | 18.6 | 15.6 | 14.6 | 16.5 | 19.7 | 21.4 | 22.6 | 24.1 | 25.8 |
| Average ASPs (₹ lakh/unit) | 4.46 | 4.59 | 4.57 | 5.07 | 5.72 | 6.32 | 6.53 | 6.68 | 6.82 |
| RMC/Unit (₹ lakh/unit) | 3.24 | 3.45 | 3.49 | 4.00 | 4.39 | 4.71 | 4.87 | 4.97 | 5.08 |
| Discount (₹/unit) | 18,334 | 23,688 | 19,771 | 14,700 | 14,538 | 17,929 | 22,750 | 20,000 | 15,000 |

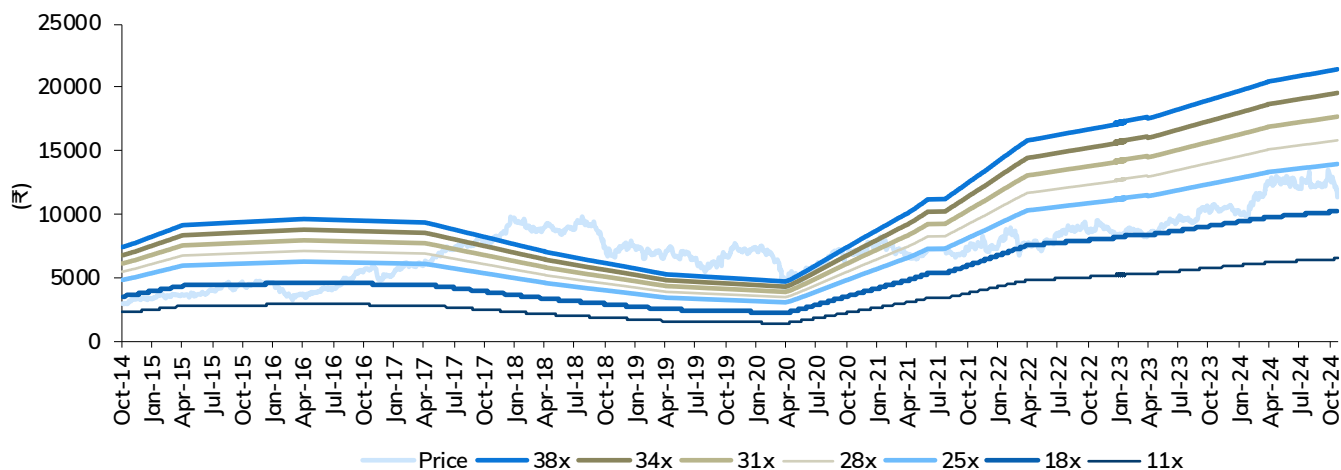
Source: ICICI Direct Research

Exhibit 3: Change in headline estimates

| (₹ Crore) | FY25E | | | FY26E | | | FY27E | Comments |
|------------------------|----------|----------|----------|----------|----------|----------|------------|---|
| | Old | New | % Change | Old | New | % Change | Introduced | |
| Total Operating Income | 1,53,463 | 1,54,094 | 0.4 | 1,68,228 | 1,68,168 | 0.0 | 1,83,857 | Broadly retained topline estimates. Introduced FY27E numbers. We expect topline at MSIL to grow at a CAGR of 9.3% over FY24-27E (volume growth of 6.4%) |
| EBITDA | 19,510 | 18,971 | -2.8 | 21,810 | 21,059 | -3.4 | 23,200 | |
| EBITDA Margin (%) | 12.7 | 12.3 | -40 bps | 13.0 | 12.5 | -44 bps | 12.6 | Marginally lowered margins estimates for FY25-26E amid muted Q2FY25 show |
| PAT | 15,675 | 14,641 | -6.6 | 17,406 | 17,085 | -1.8 | 18,510 | |
| EPS (₹) | 499 | 466 | -6.6 | 553.6 | 543 | -1.8 | 589 | We expect PAT at MSIL to grow at a CAGR of 11.9% over FY24-27E |

Source: Company, ICICI Direct Research

Exhibit 4: MSIL currently trades at ~20x PE on two year forward basis vs. its long period averages of ~25x PE



Source: Company, ICICI Direct Research

Financial Summary

| Exhibit 5: Profit and loss statement | | | | |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY24 | FY25E | FY26E | FY27E |
| Total operating Income | 1,40,933 | 1,54,094 | 1,68,168 | 1,83,857 |
| Growth (%) | 19.9 | 9.3 | 9.1 | 9.3 |
| Raw Material Expenses | 1,00,607 | 1,09,897 | 1,19,751 | 1,30,923 |
| Employee Expenses | 5,478 | 6,036 | 6,437 | 6,862 |
| Other expenses | 18,446 | 19,189 | 20,920 | 22,872 |
| Total Operating Expenditure | 1,24,532 | 1,35,122 | 1,47,109 | 1,60,657 |
| EBITDA | 16,401 | 18,971 | 21,059 | 23,200 |
| Growth (%) | 49 | 16 | 11 | 10 |
| Depreciation | 3,022 | 3,082 | 3,363 | 3,861 |
| Interest | 193 | 174 | 156 | 141 |
| Other Income | 3,855 | 4,296 | 4,506 | 4,686 |
| PBT | 17,040 | 20,012 | 22,046 | 23,884 |
| Total Tax | 3,831 | 5,370 | 4,960 | 5,374 |
| Tax Rate (%) | 22.5 | 26.8 | 22.5 | 22.5 |
| PAT | 13,209 | 14,641 | 17,085 | 18,510 |
| Growth (%) | 64.1 | 10.8 | 16.7 | 8.3 |
| EPS (₹) | 420.1 | 465.7 | 543.4 | 588.7 |

Source: Company, ICICI Direct Research

| Exhibit 6: Cash flow statement | | | | |
|-------------------------------------|-----------------|----------------|-----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY24 | FY25E | FY26E | FY27E |
| Profit after Tax | 13,209 | 14,641 | 17,085 | 18,510 |
| Add: Depreciation | 3,022 | 3,082 | 3,363 | 3,861 |
| Sub: Other Income | 3,855 | 4,296 | 4,506 | 4,686 |
| (Inc)/dec in Current Assets | -1,255 | -2,115 | -787 | -329 |
| Inc/(dec) in CL and Provisions | 4,012 | 1,633 | 1,075 | 2,205 |
| Others | 193 | 174 | 156 | 141 |
| CF from operating activities | 15,327 | 13,119 | 16,386 | 19,702 |
| (Inc)/dec in Investments | -7,468 | -2,000 | -3,000 | -6,100 |
| (Inc)/dec in Fixed Assets | -7,350 | -10,000 | -12,000 | -12,000 |
| Others | -12,957 | -130 | -130 | -80 |
| Add: Other income | 3,855 | 4,296 | 4,506 | 4,686 |
| CF from investing activities | (23,919) | (7,834) | (10,624) | (13,494) |
| Issue/(Buy back) of Equity | 0 | 0 | 0 | 0 |
| Inc/(dec) in loan funds | -1,183 | -20 | -10 | 0 |
| Dividend paid & dividend tax | -3,930 | -4,716 | -5,345 | -5,974 |
| Others | 14,127 | -174 | -156 | -141 |
| CF from financing activities | 9,015 | (4,910) | (5,511) | (6,114) |
| Net Cash flow | 422 | 375 | 251 | 93 |
| Opening Cash | 38 | 460 | 835 | 1,086 |
| Closing Cash | 460 | 835 | 1,086 | 1,179 |

Source: Company, ICICI Direct Research

| Exhibit 7: Balance Sheet | | | | |
|---------------------------------|----------------|----------------|-----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY24 | FY25E | FY26E | FY27E |
| Liabilities | | | | |
| Equity Capital | 157 | 157 | 157 | 157 |
| Reserve and Surplus | 83,825 | 93,750 | 1,05,490 | 1,18,027 |
| Total Shareholders funds | 83,982 | 93,907 | 1,05,648 | 1,18,184 |
| Total Debt | 33 | 13 | 3 | 3 |
| Deferred Tax Liability | 0 | 0 | 0 | 0 |
| Others Liabilities | 3,374 | 3,594 | 3,814 | 4,034 |
| Total Liabilities | 87,389 | 97,514 | 1,09,465 | 1,22,221 |
| Assets | | | | |
| Gross Block | 44,999 | 51,302 | 63,302 | 80,302 |
| Less: Acc Depreciation | 26,273 | 29,355 | 32,718 | 36,579 |
| Net Block | 18,726 | 21,947 | 30,584 | 43,723 |
| Capital WIP | 6,303 | 10,000 | 10,000 | 5,000 |
| Total Fixed Assets | 25,029 | 31,947 | 40,584 | 48,723 |
| Investments | 68,514 | 70,764 | 74,014 | 80,314 |
| Inventory | 4,120 | 5,488 | 5,529 | 5,037 |
| Debtors | 4,601 | 5,066 | 5,529 | 6,045 |
| Loans and Advances | 33 | 36 | 39 | 43 |
| Other Current Assets | 4,637 | 4,915 | 5,196 | 5,497 |
| Cash | 460 | 835 | 1,086 | 1,179 |
| Total Current Assets | 13,850 | 16,341 | 17,379 | 17,801 |
| Creditors | 14,582 | 15,620 | 16,126 | 17,630 |
| Provisions | 1,207 | 1,292 | 1,334 | 1,459 |
| Other current Liabilities | 7,107 | 7,616 | 8,144 | 8,719 |
| Total Current Liabilities | 22,896 | 24,529 | 25,604 | 27,808 |
| Net Current Assets | (9,046) | (8,189) | (8,225) | (10,007) |
| Other Assets | 2,892 | 2,992 | 3,092 | 3,192 |
| Application of Funds | 87,389 | 97,514 | 1,09,465 | 1,22,221 |

Source: Company, ICICI Direct Research

| Exhibit 8: Key ratios | | | | |
|-----------------------------|------------|------------|------------|------------|
| (Year-end March) | FY24 | FY25E | FY26E | FY27E |
| Per share data (₹) | | | | |
| EPS | 420 | 466 | 543 | 589 |
| Cash EPS | 516 | 564 | 650 | 712 |
| BV | 2,671 | 2,987 | 3,360 | 3,759 |
| DPS | 130 | 150 | 170 | 190 |
| Cash Per Share | 1,711 | 1,786 | 1,890 | 2,087 |
| Operating Ratios | | | | |
| EBITDA Margin (%) | 11.6 | 12.3 | 12.5 | 12.6 |
| PBIT / Net sales (%) | 9.5 | 10.3 | 10.5 | 10.5 |
| PAT Margin (%) | 9.4 | 9.5 | 10.2 | 10.1 |
| Inventory days | 10.7 | 13.0 | 12.0 | 10.0 |
| Debtor days | 11.9 | 12.0 | 12.0 | 12.0 |
| Creditor days | 37.8 | 37.0 | 35.0 | 35.0 |
| Return Ratios (%) | | | | |
| RoE | 15.7 | 15.6 | 16.2 | 15.7 |
| RoCE | 15.3 | 16.3 | 16.2 | 15.9 |
| RoC | 49.4 | 51.0 | 44.5 | 37.7 |
| Valuation Ratios (x) | | | | |
| P/E | 27.0 | 24.4 | 20.9 | 19.3 |
| EV / EBITDA | 18.5 | 15.9 | 14.1 | 12.6 |
| EV / Net Sales | 2.2 | 2.0 | 1.8 | 1.6 |
| Market Cap / Sales | 2.5 | 2.3 | 2.1 | 1.9 |
| Price to Book Value | 4.2 | 3.8 | 3.4 | 3.0 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Ratio | 0.8 | 0.9 | 0.9 | 0.9 |
| Quick Ratio | | | | |
| | 0.6 | 0.6 | 0.6 | 0.6 |

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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