

**New Product launch will be key focus**

**CMP: INR 9,493**

**Rating: Accumulate**

**Target Price: INR 10,872**

**Stock Info**

BSE	532500
NSE	MARUTI
Bloomberg	MSIL IN
Reuters	MRTI.NS
Sector	Automobiles
Face Value (INR)	5
Equity Capital (INR mn)	1510
Mkt Cap (INR cr)	28,67,978
52w H/L (INR)	9450 / 6540
Avg Yearly Vol (in 000')	737

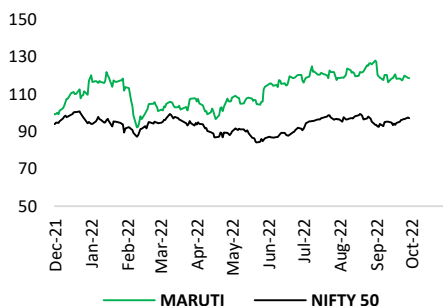
**Shareholding Pattern %**

(As on June, 2022)

Promoters	56.37
Public & Others	3.62

Stock Performance (%)	1m	3m	12m
Maruti Suzuki	8.7	8.8	28.8
Nifty 50	1.2	5.0	-0.39

**Maruti Vs Nifty 50**



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**Maruti revenue above our estimates:** Standalone revenue stood at INR 299,308 Mn, above our estimate of INR 295,760 Mn registering a growth of 45.7% YoY/ 12.9% QoQ led by new models like New Brezza, New Baleno, and Vitara have been gaining good traction. Total Volume increased by 11% QoQ/+36% YoY to 517,395 units. Relatively better sales volume leads to improved capacity utilization. Maruti EBITDA per Vehicle was increased by 138% YoY/31% QoQ of INR 53,516 against 40,863 in Q1FY23.

**EBITDA converging with our estimates:** EBITDA stood at INR 27,689 Mn, above our estimate of INR 27,436 Mn, Registering a growth of 224%YoY/ 44.8%QoQ. On the margins front, EBITDA margin expansion by 51bps YoY/ 20bpsQoQ to 9.25%, above our estimate of 9.3% led by favorable foreign exchange variation, Cost reduction efforts, and Softening of commodity prices.

**Strong Order book:** The company's pending customer orders stood at about 412,000 units at the end of the September FY23 quarter, of which about 130,000 vehicle pre-bookings were for recently launched models.

**Constraints in semiconductor supply:** The company is taking steps to secure the availability of electronic components, reduce costs and improve realization in order to further improve margins. A shortage of electronic components impacted production by about 35,000 vehicles during the quarter.

**Raw Material:** Gross margin has improved which was led by the cooling off of commodity prices and depreciation of JPY. For Q3FY23 expect the commodity price to remain steady while for Q4FY23 it is expected to increase marginally.

**Outlook and valuation**

At a CMP of INR 9,493, MSIL is currently trading at a PE of 18.3x, its FY25E EPS of INR 518. Maruti delivered a strong performance in Q2FY23 as it was above our estimates. We believe that the company has a better product mix, likely to ease production, a price hike, and a stable RM environment would support MSIL's margin expansion, going forward. In addition, the full impact of softening commodity cost benefit on margins would get reflected on P&L from 3QFY23E onwards. A new model launches in the coming months, and a healthy order book and commodity/forex gain tailwinds will further support strong performance. **We value Maruti at 21x FY25E EPS of INR 518 for the revised target price of INR 10,872 per share (The previous target price was INR 9,720 per share). We maintain our Accumulate rating.**

**Exhibit 1: Financial Performance**

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY22	8,82,956	57,012	37,663	124.7	6.46	7.25	76.14
FY23E	11,22,220	1,09,313	76,805	254.3	9.74	13.9	37.15
FY24E	13,17,874	1,41,357	98,664	391.9	10.70	17.00	24.20
FY25E	14,85,622	1,70,976	1,11,709	517.7	11.50	17.90	18.30

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

### Q2FY23 Highlights from the Conference Call

- The company is committed to address the SUV segment and there will be new launches that will help to gain the lost market share.
- **Response from the launch:** Maruti received a strong response for Grand Vitara and the new Brezza models. Getting higher response for a strong hybrid model of Vitara (35% of Vitara's bookings). Maruti will look option of introducing hybrid in existing models as well.
- **Semiconductor:** The company's Q2FY23 numbers would have been higher if it weren't for the continuing shortage of chips and resultant electronic components which impacted production by about 35k vehicles in Q2FY23. Maruti Suzuki says it has been making simultaneous efforts in securing electronic components availability, cost reduction, and improving realization from the market to better its margins.
- Management expects new products (recent and future models) to help attain a dominant position in Uvs.
- **Order Book:** As of Sep'22, order-book stood at 412,000. Of this 130,000 units are for recently launched models, and 130,000-140,000 units are for CNG vehicles. CNG penetration stood at >20%. The company plans a number of new launches in the SUV segment in the coming years to gain a sizable market share in the segment and fill the product gaps.
- **Margin:** The company's Q2FY23, margin expanded QoQ on a higher scale, commodity easing benefits and forex gains (INR 1600Mn).
- **Expenses:** The royalty and Ad expenses for the quarter increased by ~INR 1500 Mn each sequentially which led to an increase in other expenses.
- **Industry Outlook** is expected to do 3.8 Mn this year. In festive months the company does stocking, hence high inventory. This is done to keep a longer-term picture in view. By December, the company will be able to improve wholesale and retails. The idea is to maximize production with the existing supply constraints.
- **Expansion:** The total current production capacity is 2.25mn units, 100K capacity will come in the Manesar plant by April 2024, Toyota's capacity is over & above to this, and the Kharkhoda plant (250K units) will be up & running max by Mar FY25.
- **Capex:** The company CAPEX will be INR 70,000 Mn in FY23 majorly on the new plant Kharkhoda, new model launches, R&D and regular maintenance CAPEX, etc.
- **Discounts:** The average discount/vehicle for the quarter stood at INR 13,840 against INR 12,748 in 1QFY23. Gujarat production volumes were ~31% of the overall volumes in 2QFY23. The Royalty for the quarter stood at ~3.8% vs. 3.5% in 2QFY22 and 3.7% in 1QFY23.
- **Exports:** On the exports front in Q2FY23, Maruti Suzuki shipped a total of 63,195 units, up 6% YoY (Q2FY22: 59,408). In the first six months of the ongoing fiscal, the company has exported a total of 131,070 units, up 26% YoY (H1 FY2022: 103,622) and is poised to maintain the No. 1 PV exporter title, which is wrested from Hyundai Motor India in FY2022.

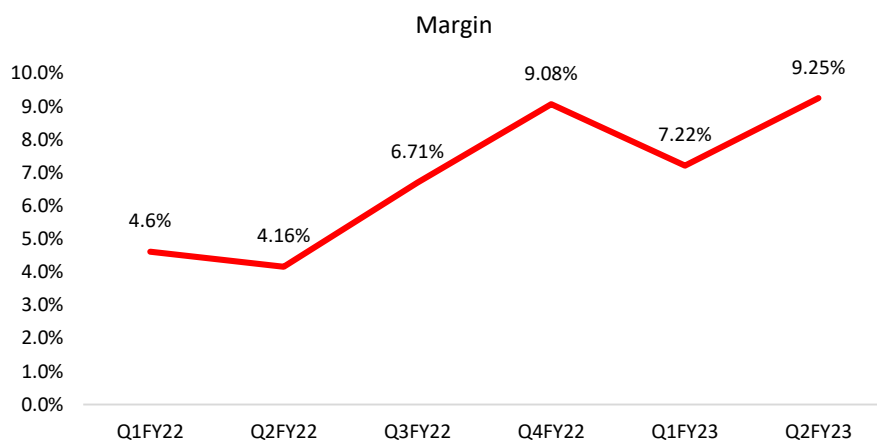
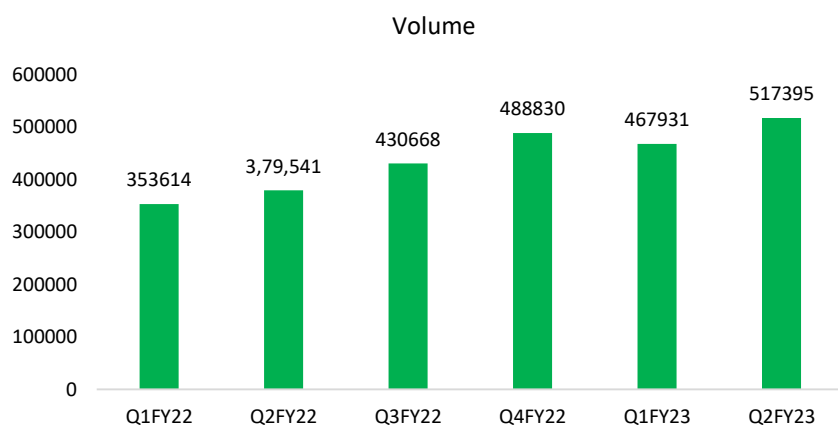
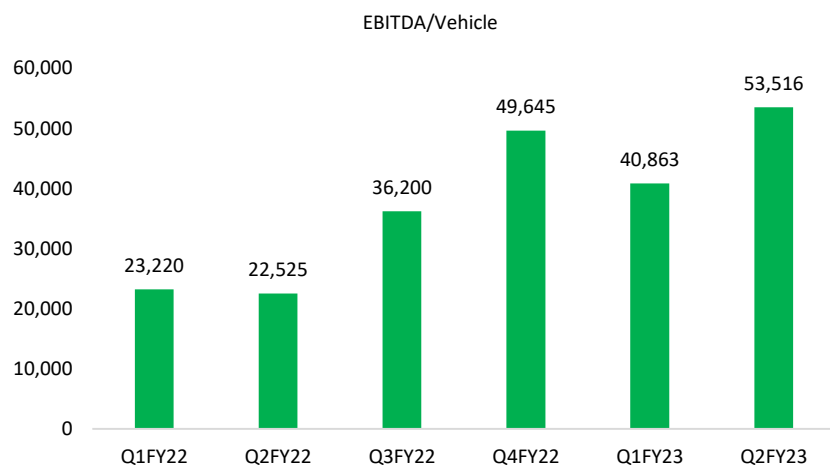
## Exhibit 2: Q2FY23 result Snapshot

Standalone (INRm)	Q2FY23	Q1FY23	Q2FY22	YoY (%)	QoQ(%)
Net Sales	299,308	264,998	205,389	45.7	12.9
- Raw Material	218801	197702	155770	40.5	10.7
(% of Net Sales)	73.1%	74.6%	75.8%	-3.6	-2.0
- Staff Expenditure	11327	11584	9622	17.7	-2.2
(% of Net Sales)	3.8%	4.4%	4.7%	-19.2	-13.4
- Other Expenditure	41491	36591	31448	31.9	13.4
(% of Net Sales)	13.9%	13.8%	15.3%	-9.5	0.4
Total Expenditure	271,619	245,877	196,840	38.0	10.5
<b>EBITDA</b>	<b>27,689</b>	<b>19,121.00</b>	<b>8,549</b>	223.9	44.8
<b>EBITDA Margin (%)</b>	<b>9.25%</b>	<b>7.22%</b>	<b>4.16%</b>	51bps	20bps
Depreciation	7226	6514	7561	-4.4	10.9
<b>EBIT</b>	<b>20,463</b>	<b>12,607</b>	<b>988</b>	1,971.2	62.3
<b>EBIT Margin (%)</b>	<b>6.8%</b>	<b>4.8%</b>	<b>0.5%</b>	64bps	64bps
Interest	305	274	225	35.6	11.3
Other Income	6125	885	5227	17.2	592.1
<b>PBT</b>	<b>20,158</b>	<b>13,218</b>	<b>5,990</b>	236.5	52.5
Tax	5668	3090	1237	358.2	83.4
Tax Rate (%)	21.6%	23.4%	20.7%	9bps	9bps
<b>Adjusted PAT</b>	<b>20,615</b>	<b>10,128</b>	<b>4,753</b>	333.7	103.5
Exceptional Items	-	-	-		
<b>Reported PAT</b>	<b>20,615</b>	<b>10,128</b>	<b>4,753</b>	333.7	103.5
Reported EPS (INR)	68.24	33.53	13.59	402.1	103.5
<b>Volumes (In Nos)</b>	<b>517,395</b>	<b>467,931</b>	<b>379,541</b>	36.3	10.6
<b>Net Realisation (INR)</b>	<b>578,490</b>	<b>566,319</b>	<b>541,151</b>	6.9	2.1
EBITDA / Vehicle (INR)	53,516	40,863	22,525	137.6	31.0

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

Volumes (In Nos)	Q2FY23	Q1FY23	Q2FY22	YoY (%)	QoQ (%)
<b>Domestic</b>	454,200	398,494	320,133	41.9	14.0
A: Mini	72,069	48,987	55,082	30.8	47.1
A: Compact + Super compact	228,551	204,877	136,736	67.1	11.6
A: Mid-Size + Exec	4,254	2,672	4,577	(7.1)	59.2
<b>Total cars</b>	304,874	256,536	196,395	55.2	18.8
B: UVs	82,778	80,852	75,068	10.3	2.4
C: Vans	66,548	61,106	48,670	36.7	8.9
Export	63,195	69,437	59,408	6.4	(9.0)
<b>Total Volumes</b>	517,395	467,931	379,541	36.3	10.6

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

**Exhibit 3: Increased due to softening in commodity price and favorable foreign exchange variation****Exhibit 4: Relatively better sales volume leading to improved capacity utilization.****Exhibit 5: The company EBITDA/Vehicle showing uptrend in Q2FY23 due to higher capacity utilization and better realization**

Source: Arianth Research, Company Filings,

Profit & Loss Statement (Standalone)				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
<b>Net sales</b>	<b>8,82,956</b>	<b>11,22,220</b>	<b>13,17,874</b>	<b>14,85,622</b>
Growth, %	26	29	18	15
RM expenses	-6,60,373	-7,85,554	-8,96,154	-9,98,309
Employee expenses	-40,222	-46,255	-48,568	-50,996
Other expenses	-1,25,349	-1,81,097	-2,31,795	-2,65,340
<b>EBITDA (Core)</b>	<b>57,012</b>	<b>1,09,313</b>	<b>1,41,357</b>	<b>1,70,976</b>
Growth, %	7	92	29	21
Margin, %	6.5	9.7	10.7	11.5
Depreciation	-27,865	-33,041	-36,774	-41,441
<b>EBIT</b>	<b>29,147</b>	<b>76,273</b>	<b>1,04,583</b>	<b>1,29,535</b>
Growth, %	26	162	37	24
Margin, %	3.3	6.8	7.9	8.7
Interest paid	-1,259	-1,440	-1,984	-2,750
Other Income	17,935	18,832	19,208	19,593
	2.03	1.68	1.46	1.32
Non-recurring Items	-	-	-	-
<b>Pre-tax profit</b>	<b>45,823</b>	<b>93,665</b>	<b>1,21,807</b>	<b>1,46,378</b>
Tax provided	-8,160	-16,860	-23,143	-34,669
<b>Profit after tax</b>	<b>37,663</b>	<b>76,805</b>	<b>98,664</b>	<b>1,11,709</b>
Others (Minorities, Associates)	-	-	-	-
<b>Net Profit</b>	<b>37,663</b>	<b>76,805</b>	<b>98,664</b>	<b>1,11,709</b>
Growth, %	-11	104	28	13
<b>Net Profit (adjusted)</b>	<b>37,663</b>	<b>76,805</b>	<b>98,664</b>	<b>1,11,709</b>

Balance Sheet (Standalone)				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
Cash & bank	30,362	20,970	17,719	22,379
Marketable securities cost	3,92,361	4,12,361	4,32,361	4,52,361
Debtors	20,301	25,802	21,965	29,411
Inventory	35,331	42,028	47,946	53,411
Loans & advances	307	313	319	326
Other current assets	20,049	20,049	20,049	20,049
Total current assets	1,06,350	1,09,163	1,07,998	1,25,576
Investments	15,272	15,272	15,272	15,272
Gross fixed assets	5,15,678	5,77,902	6,55,678	7,17,902
Less: Depreciation	-3,50,990	-3,83,564	-4,20,805	-4,61,779
Add: Capital WIP	26,391	26,391	26,391	26,391
Net fixed assets	1,64,688	1,94,338	2,34,874	2,56,123
<b>Total assets</b>	<b>7,31,985</b>	<b>7,84,448</b>	<b>8,43,818</b>	<b>9,02,646</b>
Current liabilities	1,57,705	1,77,049	2,11,150	2,34,011
Provisions	7,863	7,863	7,863	7,863
Total current liabilities	1,65,568	1,84,912	2,19,013	2,41,874
Non-current liabilities	29,534	26,897	26,897	5,086
Total liabilities	1,95,102	2,11,808	2,45,910	2,46,959
Paid-up capital	1,510	1,510	1,510	1,510
Reserves & surplus	5,31,554	5,67,310	5,92,579	6,50,358
Shareholders' equity	5,33,064	5,68,820	5,94,089	6,51,868
<b>Total equity &amp; liabilities</b>	<b>7,31,985</b>	<b>7,84,448</b>	<b>8,43,818</b>	<b>9,02,646</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Cash Flow (Standalone)				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
<b>Pre-tax profit</b>	<b>45,823</b>	<b>94,131</b>	<b>1,21,341</b>	<b>1,73,812</b>
Depreciation	27,865	32,574	37,241	40,974
Chg in working capital	3,702	7,139	32,016	9,942
Total tax paid	-14,301	-16,944	-23,055	-34,762
<b>CFO</b>	<b>46,413</b>	<b>1,08,800</b>	<b>1,50,318</b>	<b>1,73,123</b>
Capital expenditure	-48,916	-77,776	-62,224	-77,776
Chg in investments	50,234	20,000	20,000	20,000
<b>CFI</b>	<b>-20,747</b>	<b>-78,944</b>	<b>-63,016</b>	<b>-78,183</b>
Free cash flow	-42,503	-8,976	48,094	55,347
Dividend (incl. tax)	-19,999	-56,989	-73,209	-1,02,898
<b>CFF</b>	<b>-22,327</b>	<b>-58,429</b>	<b>-75,192</b>	<b>-1,05,648</b>
<b>Net chg in cash</b>	<b>3,339</b>	<b>-28,573</b>	<b>12,110</b>	<b>-10,709</b>
Opening cash balance	30,364	30,362	20,970	17,719
<b>Closing cash balance</b>	<b>30,362</b>	<b>20,970</b>	<b>17,719</b>	<b>22,379</b>

Ratios (Standalone)				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
EPS (INR)	124.7	254.3	391.9	517.7
PE (x)	76.1	37.3	24.2	18.3
Price/Book (x)	5.4	5.0	4.0	3.1
EV/EBITDA (x)	42.9	22.3	13.7	9.2
EV/Net sales (x)	2.8	2.2	1.5	1.1
RoE (%)	7.25	13.9	17.0	17.9
RoCE (%)	9	16	20	23
Dividend Yield (%)	0.6	1.9	2.9	4.8
Receivable (days)	9	9	6	7
Payable (days)	43	42	41	42
Revenue Growth (%)	26	29	18	15
EBIDTA Growth (%)	7	92	29	21
EPS Growth, %	-11	88	43	23
Net D/E ratio (x)	(0.8)	(0.8)	(0.8)	(0.7)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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