

**Beat Estimates; New Product launch will be key focus**

**CMP: INR 8,602**

**Rating: Accumulate**

**Target Price: INR 9,788**

**Stock Info**

BSE	532500
NSE	MARUTI
Bloomberg	MSIL IN
Reuters	MRTI.NS
Sector	Automobiles
Face Value (INR)	5
Equity Capital (INR mn)	1,510
Mkt Cap (INR mn)	25,98,670
52w H/L (INR)	8,370 / 6,301
Avg Yearly Vol (in 000')	781

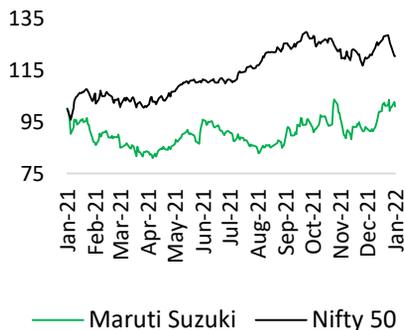
**Shareholding Pattern %**

(As on December, 2021)

Promoters	56.37
Public & Others	43.63

Stock Performance (%)	1m	3m	12m
Maruti Suzuki	11.3	12.1	2
Nifty 50	0.8	(5.4)	20.4

**Maruti Vs Nifty 50**



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**Maruti Suzuki (MSIL), Beat estimates on all fronts in Q3FY22.**

- Standalone revenue stood at INR 2,32,460 Mn, against our estimate of INR 2,35,380 Mn registering 13% QoQ/-1% YoY.
- EBITDA stood at INR 15,590 Mn, against our estimate of INR 12,946 Mn, Registering a growth of 82%QoQ/-30%YoY.
- On the margins front, EBITDA margin expanded by 3bps QoQ and contracted on 3bps YoY to 6.71%, against our estimate of 5.5%. Due to relatively better sales volume leading to improved capacity utilization, lower sales promotion expenses and increase in selling prices and also the company cost reduction initiatives.
- Standalone PAT saw an increase of 113%QoQ/-48% YoY to INR 10,113 Mn against our estimate of INR 7,970 Mn.
- EPS stood at INR 33.48 in Q3FY22 against INR 13.59 in Q2FY22 (INR 64.3 in Q3FY21).
- Total Volume was up by 13%QoQ/-13% YoY to 4,84,039 units. The company clocked its highest ever exports at 64,995 units against 28,528 units in Q3 FY21. This was also 66% higher than the previous peak exports in any Q3.

**Outlook and valuation**

At a CMP of INR 8,602, MSIL currently trading at a P/E of 26.4x, to its FY24E EPS of INR 326.3. Maruti Q3FY22 has largely exceeded the estimates led by operating leverage benefits, lower sales promotion, and price hikes.

Exports sales were the highest ever in Q3FY22. MSIL is likely to advantage from strong demand for passenger vehicles, led by surging demand in tier-2, tier-3 cities, and rural areas. MSIL is expected to recover market share in the SUV segment, driven by product launches in mass and premium segments.

**We value Maruti at 30x FY23 EPS of INR 326.3 for the Target Price of INR 9,788 per share. We upgrade our rating to Accumulate from Hold.**

YE March	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
(INR Mn)							
<b>FY20</b>	7,56,106	73,026	56,506	187.1	9.66	11.95	45.99
<b>FY21</b>	7,03,325	53,453	42,297	140.0	7.60	8.54	61.43
<b>FY22E</b>	8,57,132	53,101	34,510	114.2	6.20	6.75	75.30
<b>FY23E</b>	10,63,760	1,05,568	74,908	248.0	9.92	14.14	34.69
<b>FY24E</b>	12,02,228	1,15,988	82,189	326.3	9.65	14.72	26.36

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

**Q3FY22 Highlights from the Conference Call**

- **Market share:** The company market share in December was 48.3% for wholesale and Retail 49.9%. On an annual basis market share is 44%. It would be difficult to reach 50% in FY22 given the production constraints. Hatch 67%, Passenger cars 63%, and Vans 96%.MPV 64% and without SUV Maruti is ~64%. SUV space has pulled down overall market share. Entry segment SUV remains strong. However mid-level SUVs have impacted Maruti.
- Enquiry and booking have shown development QoQ and interest rates continue to remain favorable.
- **Exports:** The company has exported ~205k vehicles in CY21. This is the highest every export by the company. Also, 8 of the 10 highest sold vehicles were of Maruti. Management sees the demand as sustainable in the medium-term barring any surprises.
- **Capex:** YTD of INR 2,033cr and FY22 ~INR 5,500cr. ~INR 3,000cr in next 3 months for new models, RND expenses, and other purchases as part of capital expenditures.
- **Capacity:** It has a full capacity of 22 lakh vehicles annually or 5.5lac vehicles per quarter. The company will not be able to reach full capacity in Q4FY22 due to semiconductor shortages.
- Commenced vehicle scrapping facility with an annual capacity of 24k vehicles.
- **Q3FY22:** The company continued to witness a shortage of semiconductors. Estimated 19k vehicles could not be produced due to the chip shortage. The supply situation is improving gradually.
- **Cost:** Commodity prices have increased significantly in CY21, however, the company has passed the bulk of it through price increases of vehicles.
- **Volumes:** In Q3FY22, domestic 351,836 against 452,261 units and Exports of 64,995 units against 28,528 units.
- **Technology:** The company would be focusing on Hybrids and EVs in the medium term.
- **Commodity:** Precious metals showed some decline in Q3, although Steel continued to rise. Expect prices to come down in Q4 but metal prices are expected to be stable.
- **Industry volumes** have been declining in recent years, largely on account of the cost of acquisition like BS6 and other safety regulations. Management is looking at 7-8% CAGR growth relative to economic growth.
- Pending bookings as of today is ~264,000 vehicles. There has been no decline in bookings for the company. CNG would be ~117,000 of the ~264,000.
- **CAFÉ norms:** Maruti is in the best position to meet the norms. AirBag: In discussion with ministry of road transport.
- **Royalty:** 3.6%; Discounts were at INR 15,200 and Q3 Retails 392,171 passenger vehicles 403,970 including carrying model.
- **CNG volumes** Apr-Dec ~150,000. Penetration for CNG for Maruti is ~15%. Going forward, expects CNG to find more traction and sees good growth in CNG.
- **PLI scheme:** The company has applied for the PLI scheme which would lead to increased localization for those components. PLI scheme is neutral towards exports and domestic sales.
- **Product launches (FY23):** Plans to further strengthen the portfolio like SUVs. Have 2-3 products lined up.
- **Gujarat production** in Q3 ~142,500 and Export realization of INR 3,343cr.
- The company expects INR 400-450cr of income (other income) from the cash surplus the company is carrying, every quarter.
- **Commodities** have gone up by ~10% in FY22 and the company has raised prices a few times.
- **Rural markets:** In Maruti's case, they continue to witness a strong run. From 41.5% contribution to ~43%. This indicated rural markets remain strong.
- The company took weighted average price hike of ~2% across categories in Jan'22.
- **Diesel penetration** in the industry is 18% while segment-wise it is much lower. Similarly, with entry-level diesel engines. Only in mid-level SUV, ~50% penetration was seen. The company's strategy would be to launch a product in mid-level SUV as customer choices change from petrol to diesel.

## Q3FY22 result Snapshot

Standalone (INRm)	Q3FY22	Q2FY22	Q3FY21	YoY (%)	QoQ(%)
Net Sales	2,32,460.0	2,05,389.0	2,34,578	-1	13
- Raw Material	175031	155770	1,70,156	3	12
(% of Net Sales)	75.3%	75.8%	72.5%	4	-1
- Staff Expenditure	9699	9622	9,455	3	1
(% of Net Sales)	4.2%	4.7%	4%	4	-11
- Other Expenditure	32140	31448	32,706	-2	2
(% of Net Sales)	13.8%	15.3%	14%	-1	-10
Total Expenditure	2,16,870	1,96,840	2,12,317	2	10
<b>EBITDA</b>	<b>15,590</b>	<b>8,549</b>	22,261	-30	82
<b>EBITDA Margin (%)</b>	<b>6.71%</b>	<b>4.16%</b>	9.5%	-3bps	3bps
Depreciation	6400	7561	7,413	-14	-15
<b>EBIT</b>	<b>9,190</b>	<b>988</b>	14,848	-38	830
Interest	252	225	287	-12	12
Other Income	3280	5227	9,937	-67	-37
<b>PBT</b>	<b>12,218</b>	<b>5,990</b>	24,498	-50	104
Tax	2105	1237	5,084	-59	70
Tax Rate (%)	17.2%	20.7%	21%	-4bps	-3bps
<b>Adjusted PAT</b>	<b>10,113</b>	<b>4,753</b>	19,414	-48	113
Exceptional Items	0	0	0		
<b>Reported PAT</b>	<b>10,113</b>	<b>4,753</b>	19,414	-48	113
Reported EPS (INR)	33.48	13.59	64.3	-48	146
<b>Volumes (In Nos)</b>	<b>4,30,668</b>	<b>379541</b>	4,95,897	-13	13
<b>Net Realisation (INR)</b>	<b>5,39,766</b>	<b>5,41,151</b>	4,73,038	14	0
EBITDA / Vehicle (INR)	36,200	22,525	44,890	-19	61

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

Volumes (In Nos)	3QFY22	2QFY22	3QFY21	YoY (%)	QoQ (%)
<b>Domestic</b>	<b>3,65,673</b>	<b>3,20,133</b>	4,67,369	(21.8)	14.2
A: Mini	55,624	55,082	75,728	(26.5)	1.0
A: Compact + Super compact	1,75,054	1,36,736	2,49,338	(29.8)	28.0
A: Mid-Size + Exec	3,362	4,577	4,562	(26.3)	(26.5)
<b>Total cars</b>	<b>2,34,040</b>	<b>1,96,395</b>	<b>3,29,628</b>	<b>(29.0)</b>	<b>19.2</b>
B: UVs	78,637	75,068	74,850	5.1	4.8
C: Vans	52,996	48,670	62,891	(15.7)	8.9
Export	64,995	59,408	28,528	127.8	9.4
<b>Total Volumes</b>	<b>4,30,668</b>	<b>3,79,541</b>	<b>4,95,897</b>	<b>(13.2)</b>	<b>13.5</b>

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

Profit & Loss Statement					
Particulars (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net sales</b>	<b>7,56,106</b>	<b>7,03,325</b>	<b>8,57,132</b>	<b>10,63,760</b>	<b>12,02,228</b>
Growth, %	-14	-7	23	25	14
RM expenses	-5,31,566	-5,08,172	-6,23,992	-7,44,632	-8,29,537
Employee expenses	-33,839	-34,029	-38,793	-41,897	-45,248
Other expenses	-1,18,892	-1,07,671	-1,41,246	-1,71,663	-2,11,454
<b>EBITDA (Core)</b>	<b>73,026</b>	<b>53,453</b>	<b>53,101</b>	<b>1,05,568</b>	<b>1,15,988</b>
Growth, %	-34	-27	-1	99	10
Margin, %	9.7	7.6	6.2	9.9	9.6
Depreciation	-35,257	-30,315	-27,125	-30,150	-33,175
<b>EBIT</b>	<b>37,769</b>	<b>23,138</b>	<b>25,977</b>	<b>75,418</b>	<b>82,813</b>
Growth, %	-53	-39	12	190	10
Margin, %	5.0	3.3	3.0	7.1	6.9
Interest paid	-1,329	-1,008	-959	-1,353	-1,604
Other Income	34,208	29,464	18,120	19,570	21,527
	4.52	4.19	2.11	1.84	1.79
Non-recurring Items	0	0	0	0	0
<b>Pre-tax profit</b>	<b>70,648</b>	<b>51,594</b>	<b>43,138</b>	<b>93,635</b>	<b>1,02,737</b>
Tax provided	-14,142	-9,297	-8,628	-18,727	-20,547
<b>Profit after tax</b>	<b>56,506</b>	<b>42,297</b>	<b>34,510</b>	<b>74,908</b>	<b>82,189</b>
Others (Minorities, Associates)	-	-	-	-	-
<b>Net Profit</b>	<b>56,506</b>	<b>42,297</b>	<b>34,510</b>	<b>74,908</b>	<b>82,189</b>
Growth, %	-25	-25	-18	117	10
<b>Net Profit (adjusted)</b>	<b>56,506</b>	<b>42,297</b>	<b>34,510</b>	<b>74,908</b>	<b>82,189</b>

Balance Sheet				
Particulars (INR mn)	FY21	FY22E	FY23E	FY24E
Cash & bank	30,364	35,364	44,092	57,371
Marketable securities cost	4,02,595	4,04,595	4,12,595	4,17,595
Debtors	12,766	14,286	17,729	20,037
Inventory	30,500	34,666	41,368	46,085
Loans & advances	232	237	241	246
Other current assets	27,250	27,250	27,250	27,250
<b>Total current assets</b>	<b>1,01,112</b>	<b>1,11,802</b>	<b>1,30,682</b>	<b>1,50,990</b>
Investments	15,272	15,272	15,272	15,272
Gross fixed assets	4,65,678	5,20,678	5,75,678	6,30,678
Less: Depreciation	-3,23,125	-3,50,250	-3,80,399	-4,13,574
Add: Capital WIP	11,923	11,923	11,923	11,923
<b>Net fixed assets</b>	<b>1,42,553</b>	<b>1,70,429</b>	<b>1,95,279</b>	<b>2,17,104</b>
<b>Total assets</b>	<b>6,92,525</b>	<b>7,32,603</b>	<b>7,84,333</b>	<b>8,31,467</b>
Current liabilities	1,48,763	1,73,678	1,98,141	2,15,358
Provisions	7,863	7,863	7,863	7,863
<b>Total current liabilities</b>	<b>1,56,626</b>	<b>1,81,541</b>	<b>2,06,004</b>	<b>2,23,221</b>
Non-current liabilities	25,139	30,226	30,225	30,225
<b>Total liabilities</b>	<b>1,81,765</b>	<b>2,11,766</b>	<b>2,36,228</b>	<b>2,53,445</b>
Paid-up capital	1,510	1,510	1,510	1,510
Reserves & surplus	5,04,362	5,14,439	5,41,707	5,71,623
Shareholders' equity	5,05,872	5,15,949	5,43,217	5,73,133
<b>Total equity &amp; liabilities</b>	<b>6,92,525</b>	<b>7,32,603</b>	<b>7,84,333</b>	<b>8,31,467</b>

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

Cash Flow					
Particulars (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Pre-tax profit</b>	<b>70,648</b>	<b>51,594</b>	<b>43,138</b>	<b>93,635</b>	<b>1,02,737</b>
Depreciation	35,257	30,315	27,125	30,150	33,175
Chg in working capital	-28,504	45,354	19,224	14,312	10,187
Total tax paid	-13,748	-11,556	-8,628	-18,727	-20,547
<b>CFO</b>	<b>30,774</b>	<b>87,251</b>	<b>68,784</b>	<b>1,01,153</b>	<b>1,05,628</b>
Capital expenditure	-36,364	-13,605	-55,000	-55,000	-55,000
Chg in investments	40,474	-13,191	38,000	32,000	35,000
<b>CFI</b>	<b>-1,682</b>	<b>-37,332</b>	<b>-38,880</b>	<b>-43,430</b>	<b>-38,473</b>
Free cash flow	-45,590	33,646	-26,216	6,153	10,628
Dividend (incl. tax)	-21,377	-29,946	-24,433	-47,642	-52,272
<b>CFF</b>	<b>-23,139</b>	<b>-27,129</b>	<b>-25,392</b>	<b>-48,995</b>	<b>-53,876</b>
<b>Net chg in cash</b>	<b>5,953</b>	<b>22,789</b>	<b>4,512</b>	<b>8,729</b>	<b>13,279</b>
Opening cash balance	1,789	211	30,364	35,364	44,092
<b>Closing cash balance</b>	<b>211</b>	<b>30,364</b>	<b>35,364</b>	<b>44,092</b>	<b>57,371</b>

Ratios					
Particulars (INR mn)	FY21	FY22E	FY23E	FY24E	
EPS (INR)	140.0	114.2	248.0	326.3	
PE (x)	61.4	75.3	34.7	26.4	
Price/Book (x)	5.1	5.0	4.8	3.8	
EV/EBITDA (x)	40.6	40.7	20.3	14.6	
EV/Net sales (x)	3.1	2.5	2.0	1.4	
RoE (%)	9	7	14	15	
RoCE (%)	10	8	17	18	
Dividend Yield (%)	1.0	0.8	1.7	2.3	
Receivable (days)	7	6	6	6	
Payable (days)	57	57	58	57	
Revenue Growth (%)	-7	23	25	14	
EBIDTA Growth (%)	-27	-1	99	10	
EPS Growth, %	-25	-18	100	22	
Net D/E ratio (x)	(0.8)	(0.8)	(0.8)	(0.8)	

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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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