

Maruti Suzuki India

BUY

“Rising from the Ashes”

Investment Thesis

- Great Company in Temporary Trouble:** Over the last 12 months, MSIL has faced barrage of bad news including Covid -19 lockdown, unprecedented rise in Commodity prices, Bumper to Bumper Insurance and Semiconductor Chip shortages etc. We anticipate majority of these events are temporary in nature and may not last beyond 12 months. Hence the Company falls in the category of “Great Company in Temporary Trouble”.
- Last Decade is Lost Decade:** During FY12-21, MSIL’s volume grew by 3.8% CAGR compared to Indian PV market which grew by 0.3% CAGR due to Poor consumer sentiments, Demonetization, GST Implementation, BS4 to BS6 transition and Covid – 19 lockdown prevailed in the last decade.
- Indian PV Market On the Verge of Turnaround:** We believe, Indian PV market is on the verge of turnaround as Indian economy and Manufacturing industry is in expansion mode followed by increasing trend towards having own vehicle among the masses. We believe both, Urban and Rural market to drive PV market.
- Tripled its Distribution Outlets:** Although MSIL has witnessed tepid volume growth over FY12-21, it has tripled its distribution outlet from 1100 to 3200+ and has well established itself to serve upcoming 4W demand in India. MSIL’s rural sales grew by 9.6% CAGR and its contribution has gone up from 22% to 38% of its volumes over FY12-21 and hence it is no more an urban play.
- Super Bullish on MSIL’s growth prospects - BUY with an upside of 44%:** MSIL is well poised to capitalize on PV industry turnaround due to its irreplaceable competitive advantages like strong brands and distribution network. We remain super bullish on MSIL’s growth prospects. Over FY22-24E, we expect MSIL to report 20.1% volume CAGR and 46.7% PAT CAGR. At Rs7,201, the stock quotes at PER of 20.6x FY24E. We recommend BUY and upgrade our price target from Rs8,585 to Rs10,405.

TP	Rs10,405		
CMP	Rs7,201		
Potential upside / downside	+44%		
Previous Rating	BUY		

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24
IDBI Capital	141.3	285.9	346.8
Consensus	190.7	283.1	336.6
% difference	(25.9)	1.0	3.0

Shareholding Pattern (%)

Promoters	56.4
FII	22.9
DII	15.6
Public	5.1

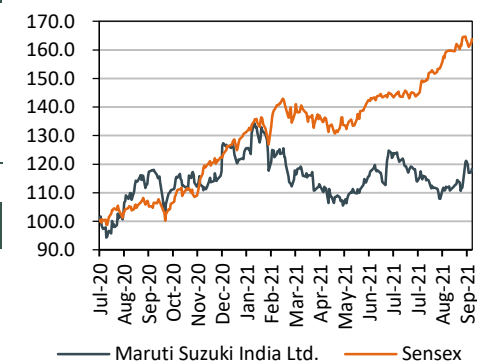
Price Performance (%)

	-1m	-3m	-12m
Absolute	4.9	(5.2)	5.6
Rel to Sensex	3.1	(17.2)	(46.2)

Key Stock Data

Bloomberg / Reuters	MSIL IN/MRTI.BO
Sector	Automobile
Shares o/s (mn)	302
Market cap. (Rs mn)	2,175,188
Market cap. (US\$ mn)	29,008
3-m daily avg Trd value (Rs mn)	3,691.1
52-week high / low	Rs8,400 / 6,301
Sensex / Nifty	59,190 / 17,646

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	7,56,106	7,03,325	8,03,895	10,54,081	11,75,269
EBITDA	73,026	53,453	55,977	1,24,387	1,53,941
EBITDA (%)	9.7	7.6	7.0	11.8	13.1
Adj. PAT	56,506	42,297	42,681	86,340	1,04,741
EPS (Rs)	187.1	140.1	141.3	285.9	346.8
EPS Growth (%)	(24.7)	(25.1)	0.9	102.3	21
PE (x)	38.7	51.8	50.8	25.1	20.6
Dividend Yield (%)	1.1	0.6	0.6	1.3	1.6
EV/EBITDA (x)	30.0	40.5	38.1	16.6	12.9
RoE (%)	11.9	8.5	8.1	15.1	16.4
RoCE (%)	7.8	4.5	4.2	14.8	17.1

Source: IDBI Capital Research;

Barrage of Bad News All-around

Over the last 12 months MSIL has faced barraged of bad news including Covid -19 lockdown, unprecedented rise of Commodity prices, Bumper to Bumper Insurance and Semiconductor Chip shortages impacting its business and profitability. Following are the summary of the same.

Exhibit 1: News Flow Timeline

Bad News	Impact	Current Situation
1 Covid -19 Lockdown closed MSIL's plant and Distribution Network	In May 2021, MSIL shut production from 1st to 16th May to divert oxygen from industrial use for medical purposes. The Company witnessed production disruption owing to lockdowns.	Lockdown restrictions have been removed from most parts of the Country. MSIL's plant and show room operations are fully functional. Vaccination has picked up strong momentum. This is expected to bring in incremental normalcy in the rural & urban areas and likely to help Auto market to recover.
2 Unprecedented rise in Commodity prices	<ul style="list-style-type: none"> ■ Steel prices up from Rs 38/kg to Rs 70/kg ■ Copper prices up from \$5,000 to \$10,200 ■ Rhodium up from Rs18,000 to Rs64,000 ■ MSIL has lost 300bps+ EBITDA margins last two quarters. 	Commodity prices have cooled off from their peak.
3 Four Price Hikes	The company has taken four price hikes to protect its margins.	The company though could not pass on the entire increase in commodity prices due to uncertainty in demand after the second wave of Covid-19
4 Chip shortages adversely affected vehicle production	<ul style="list-style-type: none"> ■ The supply constraint of electronic components due to semiconductor shortage adversely impacted vehicle production in August to Oct 21 ■ MSIL has lost ~50% production in Sept – October 2021 	As per MSIL Chairman R.C. Bhargava, Semiconductor shortage problem faced by auto industry is temporary and is expected to be over by 2022
5 Bumper to Bumper Insurance could have increased prices	Madras High Court had directed that all Motor vehicles sold in Tamil Nadu from September 21 to get Bumper to Bumper insurance cover. This would have increased overall price of new vehicle by 4-5%	Order has been withdrawn. No Bumper to Bumper insurance cover required by all vehicles
6 CCI fine– Regulatory Action	The Competition Commission of India imposed Rs2bn penalty on MSIL for its policy of controlling dealer's discounts for consumers.	As per Company it is examining the order and will take appropriate actions under the law. Most likely it will settle the issue by paying the fine

Source: Company Report, Industry Report, IDBI Capital Research

We believe most of the above mentioned factors and their negative impact on the business of MSIL is waning off. Vaccination has picked up strong momentum in the country. This is expected to bring in incremental normalcy in the rural & urban areas and likely to help Auto market to recover. The commodity prices have cooled off from their peak and expected to remain soft going forward. Also Chip shortages is expected to come down gradually and expected to be over by 2022. We believe these are positive signs for MSIL in the medium term.

Indian PV market Across Two Cycles (20 years) – “Story of Extremities”

In last 20 years, Indian PV industry has seen two cycles. The first cycle is associated with FY02-12 while second is related to FY12-21. The performance of Indian PV industry during these two cycles is summarized as follows.

- During FY02-12 PV market grew by 15% CAGR (Market become almost ~4x).
- During FY12-21 PV market grew by 0% CAGR (Gone nowhere- Remained Flat)
- During FY12-19 (Pre Covid Era) PV market grew by meager 3.6% CAGR.

Exhibit 2: Indian PV industry performance over FY02-21

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	CAGR
PV Sales	6,75,116	7,07,198	9,00,752	10,61,572	11,43,076	13,79,698	15,49,343	15,52,703	19,51,333	25,01,865	26,29,425	15%
	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21		CAGR
PV Sales	26,29,425	26,65,015	25,03,685	26,01,111	27,89,239	30,46,667	32,88,581	33,77,436	27,73,519	27,11,457		0%
	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19				CAGR
PV Sales	26,29,425	26,65,015	25,03,685	26,01,111	27,89,239	30,46,667	32,88,581	33,77,436				3.6%

Source: SIAM

Most surprising part is during FY12-19 (Pre Covid Era), Indian PV market grew by meager 3.6% CAGR despite Nominal GDP per Capita doubled, and higher urbanization took place and incremental consumption trend witnessed in the Indian masses during the period.

What Drives the Indian PV Market? (Quantitative Analysis)

To find relevant factors responsible of Indian PV market growth in quantitative terms, we analyzed eight factors which are considered responsible or held responsible for overall performance of Indian PV industry. They include 1) Nominal GDP Growth 2) Real GDP Growth 3) GDP Per Capita 4) Inflation 5) Interest Rates 6) IIP Growth 7) Oil Prices and 8) Food grain Production in the Country.

Following are the performance of Indian PV industry against eight factors mentioned above during the last 20 years.

Exhibit 3: Indian PV Industry and Macro Factors

	PV Sales	PV Sales Growth	Nominal GDP Growth	Real GDP Growth	GDP Per Capita (Rs)	Inflation (CPI)	Aveg Interest Rates	IIP Growth	Oil Prices	Foodgrain Production - Lac Tonnes
FY02	6,75,116			5.4	22,652	1.1	11.5	2.8	23.6	2,129
FY03	7,07,198	5.0	8.0	3.9	24,018	3.2	11.1	5.8	27.4	1,748
FY04	9,00,752	27.0	12.0	8	26,507	3.9	10.6	7	28.6	2,132
FY05	10,61,572	18.0	14.0	7.1	29,772	2.6	10.6	8.4	43.1	1,984
FY06	11,43,076	8.0	14.0	9.5	33,394	3.9	11.5	8.2	59.4	2,086
FY07	13,79,698	21.0	16.0	9.6	38,277	7.8	13.5	12.9	66.3	2,173
FY08	15,49,343	12.0	16.0	9.3	43,823	7.5	14	15.5	83.4	2,308
FY09	15,52,703	0.2	13.0	6.7	48,787	10.2	14.1	2.5	85.1	2,345
FY10	19,51,333	26.0	15.0	8.6	55,366	13.9	13.4	5.3	71.6	2,181
FY11	25,01,865	28.0	20.0	8.9	65,633	10	8.9	8.2	89	2,445
FY12	26,29,425	5.0	12.0	6.7	71,609	8.2	10.4	2.9	114	2,593
FY13	26,65,015	1.0	14.0	5.5	80,518	10	10	3.3	110	2,571
FY14	25,03,685	-6.0	13.0	6.4	89,796	11.6	10.1	3.3	107	2,650
FY15	26,01,111	4.0	11.0	7.4	98,405	6.6	10.1	4	85	2,520
FY16	27,89,239	7.0	10.0	8	1,07,341	4.4	9.5	3.3	49	2,516
FY17	30,46,667	9.0	12.0	8.3	1,18,489	4.2	8	4.6	50	2,751
FY18	32,88,581	8.0	11.0	6.8	1,30,061	2.2	7.9	4.4	59	2,850
FY19	33,77,436	0.0	11.0	6.5	1,42,328	2.1	8.3	3.8	71	2,852
FY20	27,73,519	-18.0	8.0	4	1,51,760	8	7.7	-0.8	59	2,975
FY21	27,11,457	-2.0	-3.0	-7.3	1,45,681	5.5	6.8	-8.4	46	3,087

Source: RBI, SIAM

Our correlation analysis for Indian PV industry growth and eight factors mentioned above spread over the last 20 years have shown following results.

- Correlation between IIP and Indian PV Industry remains highest at 0.61.
- Correlation between Nominal GDP and Indian PV Industry remains second highest at 0.57.
- Correlation between Average Interest Rates and Indian PV Industry remains at 0.37.
- Correlation between Food grain Production and Indian PV Industry remains at 0.24
- Correlation between Inflation and Indian PV Industry remains lowest at 0.01

Exhibit 4: Correlation Analysis - Indian PV industry growth and eight factors

No.	Indicator	Correlation with Indian PV Industry Growth
1	IIP Growth	0.61
2	Nominal GDP Growth	0.57
3	Growth in GDP Per Capita	0.56
4	Real GDP Growth	0.49
5	Average Interest Rates	0.37
6	Food grain Production	0.24
7	Oil Prices	-0.20
8	Inflation (CPI)	0.01

Source: IDBI Capital Research

What Happened to Indian PV industry During Last Decade?

- During FY02-12 PV market grew by 15% CAGR (Market became almost 4x)
- During FY12-21 PV market grew by 0% CAGR (Remained Flat)

We tried to analyze factors responsible for subdued performance of Indian PV industry which grew by 0% over FY12-21 based on each year industry dynamics and factors impacting it. Following is the summary and result.

Exhibit 5: Indian PV Sector Performance over FY12-21

Year	PV Sales	Growth	Situation	Details
FY12	26,29,425	5.1%	High Inflation + Interest Rates	Double digit inflation, RBI raised interest rates, crude oil shot up. High inflation, high interest rates, high fuel prices impacted affordability of cars
FY13	26,65,015	1.4%	High Inflation + Interest Rates + Poor Consumer Confidence	Slowdown in Economy, GDP growth at 5% lowest in decade. High interest rates, inflation, weak consumer sentiments impacted sales.
FY14	25,03,685	-6.1%	High Inflation + Interest Rates + Poor Consumer Confidence	GDP growth below 5%. Low income growth and rising expenses discouraged households from spending on discretionary products like automobiles. Cost of ownership increased owing to rising fuel prices and high interest rates.
FY15	26,01,111	3.9%	New Government + Excise duty reduced + Lower interest rate	Slow GDP growth. Interest rates remained high, reduced excise duty helped demand, stable government at the Centre, stable Rupee and lower interest rates announced by RBI
FY16	27,89,239	7.2%	Gradual Recovery in Economy + Interest rates reduced	Economy showed gradual recovery. Fiscal deficit and inflation under control. Public investment up. Interest rates were reduced..
FY17	30,46,667	9.2%	High GDP growth + , implementation of 7th Pay Commission + Demonetization in H2	Economy sustained GDP growth rate above 7%. Pro-growth macroeconomic policy, low inflation, normal monsoon, implementation of 7th Pay Commission recovery in consumption, Demonetization in H2FY17
FY18	32,88,581	7.9%	GST Implementation	GST implementation in H1FY18 , Economy regained its growth momentum in second half, revival in rural demand, low inflation, low interest rates
FY19	33,77,436	2.7%	Slow Down	Economy faced challenges leading to slowdown in domestic consumption in H2FY19, Stimulus by RBI and Government
FY20	27,73,519	-17.9%	Covid 19 Breakout	Covid 19 outbreak impacted production and sales during Q4FY20
FY21	27,11,457	-2.2%	Covid 19/ BS4-BS6	Covid 19 outbreak shutdown the factories and distribution network during Q1FY21.

Source: RBI, SIAM, IDBI Capital Research

We concluded that following factors were responsible for muted PV sales growth over the last decade.

1. High Inflation + High Interest Rates + Poor consumer Confidence
2. Low economic growth
3. Demonetization
4. GST Implementation
5. BS4- BS6 Transition
6. Covid-19 Outbreak

Who is Buying Cars in India?

Following is the performance of Indian PV industry across four broad geographies of India.

- Over FY14-20, Indian PV market grew by 5% CAGR
- East and West part of India grew faster than the Country average at 6.8% and 5.9% respectively
- South and North part of India underperformed by 4% and 4.3% compared to country average of 5%.

Exhibit 6: Indian PV industry Across four Geographies

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	CAGR
North	3,35,249	3,76,882	4,05,307	4,28,169	4,97,402	5,24,361	4,31,415	4.3%
East	1,22,388	1,36,629	1,48,978	1,56,474	1,87,689	2,12,972	1,81,257	6.8%
West	3,15,548	3,59,987	4,12,227	4,61,509	5,14,518	5,34,284	4,45,778	5.9%
South	2,80,504	2,97,204	3,38,839	3,98,094	4,43,857	4,58,197	3,55,914	4.0%
Total	10,53,689	11,70,702	13,05,351	14,44,246	16,43,466	17,29,814	14,14,364	5.0%
Region Wise (%)								
North	32	32	31	30	30	30	31	
East	12	12	11	11	11	12	13	
West	30	31	32	32	31	31	32	
South	27	25	26	28	27	26	25	
Total	100	100	100	100	100	100	100	

Source: SIAM

Indian PV market is on the Verge of Turnaround...

Indian PV market has remained in a depressed state over the last 10 years largely due to macro factors like

1. High Inflation + High Interest Rates + Poor consumer Confidence
2. Low economic growth
3. Demonetization
4. GST Implementation
5. BS4- BS6 Transition
6. Covid-19 Outbreak

Three important key events Demonetization, GST Implementation and BS4 to BS6 Transition which stalled Indian PV industry in last decade are unlikely to appear going forward as per our belief. At the same time we assume that the intensity of Covid breakout won't be high due to vaccination drive and increased awareness among the masses.

Indian GDP during FY21 declined by 7.25% on account of Covid breakout related lockdown and subsequent slow down. However, vaccination drive has picked up strong momentum in last one month. We believe this is likely to bring in normalcy in the rural and urban areas which will lead to economic growth picking up the momentum.

Some of the following economic indicators are hinting towards turnaround in the Indian economy which is crucial for Indian PV industry.

- 1 As per RBI, average interest rates in the Country are at 7% currently, lowest in the Indian history compared to 10% in FY15. This has brought down overall cost of capital for Indian businesses at the same time encouraging consumers for spending.
- 2 Indian Foreign exchange reserves reached to \$639bn in September 21. This has bring in high stability in Indian currency and economic stability in the country.
- 3 The Index of Industrial Production (IIP) for July 2021 reported 11.5% growth compared to the same month last year. IIP captures data in the sectors of mining, manufacturing and electricity and gives an idea of general level of industrial activity in the economy.

- 4 GST Collection for the month of September 2021 stood at Rs1.17tn, which is 23% higher than same month last year. The average monthly GST collection for Q2FY22 has been Rs1.15tn which is 5% higher than the average monthly collection of Rs 1.1tn in Q1FY22. This indicates that Indian economy is not only recovered but also on growth path.
- 5 India's merchandise exports jumped by 21.4% YoY to \$33.4bn in September 2021. The exports in H1FY22 stood at \$197.1bn, with increase of 56.9% YoY and 23.8% compared to H1FY20
- 6 The Government of India has launched host of reforms recently which include a) Formation of National Asset Reconstruction Company (Bad Bank) b) Asset monetization program c) PLI scheme for auto and drone industry d) Telecom reforms e) disinvestment of Air India and f) rationalization of labor laws.
- 7 Also Indian government plans to invest Rs100Tn (\$1.35tn) in infrastructure to boost economic growth in the Country and create jobs.

All these indicators are pointing towards turnaround in the economy with positive bias. Our qualitative and quantitative analysis suggest that PV industry growth rate is highly correlated with Index of industrial production, nominal GDP growth rate and increase in GDP per capita. We believe these factors are currently in place for industry revival.

Apart from this, industry specific factors like higher preference towards personal mobility by individuals are also likely to play major role in revival of Indian Auto industry. We expect Indian PV market to grow at 12-15% CAGR over FY21-25.

MSIL's Dominance in Indian Market

MSIL has always remained dominant player in the Indian PV market due to its blockbusters models and its strong distribution reach. Over the last 10 years the Company has not lost major market share in the Indian PV market. Some of the salient features are as follows.

- In the Car segment, MSIL has increased its market share from 42.2% in FY12 to 58.2% in FY19.
- In utility segment MSIL was late entrant. However it has increased its market share from 1.8% in FY12 to 28.1% in FY19.
- In Van segment, MSIL has increased its market share from 61.4% in FY12 to 82.1% in FY19.
- Overall MSIL has increased its market share from 38.3% in FY12 to 51.4% in FY19.

Exhibit 7: MSIL and Industry Performance

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Passenger Car										
MSIL	8,55,730	8,61,337	8,90,414	9,73,531	10,67,464	10,95,891	12,34,571	12,97,083	10,60,644	9,59,658
Industry	20,29,913	18,92,016	17,85,934	18,76,017	20,25,478	21,03,357	21,74,024	22,28,471	16,97,992	14,06,288
Mkt share %	42.2	45.5	49.9	51.9	52.7	52.1	56.8	58.2	62.5	68.2
Utility Vehicles										
MSIL	6,525	79,192	61,119	68,198	94,416	1,95,741	2,53,759	2,64,197	2,35,294	2,29,101
Industry	3,64,364	5,53,640	5,25,828	5,53,618	5,86,664	7,61,996	9,22,322	9,41,362	9,68,703	9,75,594
Mkt share %	1.8	14.30	11.60	12.30	16.10	25.70	27.50	28.10	24.30	23.5
Vans										
MSIL	1,44,061	1,10,517	1,02,115	1,28,973	1,43,471	1,52,009	1,55,137	1,78,606	1,18,404	1,05,081
Industry	2,34,761	2,37,298	1,90,844	1,71,395	1,77,535	1,81,728	1,92,235	2,17,426	1,32,124	1,06,757
Mkt share %	61.4	46.6	53.5	75.2	80.8	83.6	80.7	82.1	89.6	98.4
Domestic PV										
MSIL	10,06,316	10,51,046	10,53,648	11,70,702	13,05,351	14,43,641	16,43,467	17,39,886	14,14,342	12,93,840
Industry	26,29,038	26,82,954	25,02,606	26,01,030	27,89,677	30,47,081	32,88,581	33,87,259	27,98,819	24,88,639
Mkt share %	38.3	39.2	42.1	45.0	46.8	47.4	50.0	51.4	50.5	52.0

Source: Company Report, SIAM

MSIL's huge Outperformance over Industry

Over the last decade, MSIL has outperformed Indian PV industry by wide margin. This is on account of its focus on rural market and Utility vehicle segment.

- Over FY12-19, MSIL's domestic volume grew by 8.3% CAGR vs industry growth of 3.6% (2x of industry growth)
- MSIL's rural sales grew much faster at 15.1% CAGR vs urban market which grew by 5.4%. The sales contribution from rural India to its overall volume has grown from 22% to 35% over FY12-19.
- The export volumes for MSIL have underperformed and de-grew by 2.2% over FY12-19. Its contribution to overall sales has come down from 11% to 6% during the same period.

Exhibit 8: MSIL Sales Break Up

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY12-21	FY12-19
Rural Sales	2,45,000	2,91,000	3,36,463	4,06,234	4,42,795	5,22,924	6,01,363	6,54,130	5,61,072	5,56,944	9.6%	15.1%
Urban Sales	7,61,316	7,60,046	7,17,225	7,64,468	8,62,556	9,21,617	10,52,137	10,99,571	9,00,054	8,04,778	0.6%	5.4%
Domestic Volumes	10,06,316	10,51,046	10,53,688	11,70,702	13,05,351	14,44,541	16,53,500	17,53,701	14,61,126	13,61,722	3.4%	8.3%
Export Volumes	1,27,379	1,20,388	1,01,352	1,21,713	1,23,897	1,24,062	1,26,074	1,08,749	1,02,171	96,139	-3.1%	-2.2%
Total Volumes	11,33,695	11,71,434	11,55,040	12,92,415	14,29,248	15,68,603	17,79,574	18,62,450	15,63,297	14,57,861	2.8%	7.3%
Total Sales Outlet	1,100	1,204	1,310	1,619	1,947	2,312	2,627	2,934	3,086	3,120	12.3%	15.0%
Rural Sales	22%	25%	29%	31%	31%	33%	34%	35%	36%	38%		
Urban Sales	67%	65%	62%	59%	60%	59%	59%	59%	58%	55%		
Domestic Volumes	89%	90%	91%	91%	91%	92%	93%	94%	93%	93%		
Export Volumes	11%	10%	9%	9%	9%	8%	7%	6%	7%	7%		
Total Volumes	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%		
Domestic PV Industry	26,29,425	26,65,015	25,03,685	26,01,111	27,89,239	30,46,667	32,88,581	33,77,436	27,73,519	27,11,457	0.3%	3.6%
MSIL Market share	43.1%	44.0%	46.1%	49.7%	51.2%	51.5%	54.1%	55.1%	56.4%	53.8%		

Source: Company Report, SIAM

MSIL's Leadership Position in Top 10 Passenger Car Models

Over the last decade MSIL has consolidated its position in Indian car market in terms of popularity of its models in Car segment. Over the last few years, 6-7 of its models are getting featured among top 10 models in India.

Exhibit 9: Top 10 Passenger Car Models

No.	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	Alto	Alto	Alto	Alto	Alto	Alto	Alto	Alto	Alto	Alto	Swift
2	WagonR	Swift	Swift	Swift	Swift	DZIRE	Wagon R	DZIRE	DZIRE	Swift	Baleno
3	i10	Wagon R	Dzire	DZIRE	DZIRE	Swift	DZIRE TOUR	Baleno	Swift	Baleno	WagonR
4	Swift	i10	Wagon R	Wagon R	Wagon R	Wagon R	Swift	Swift	Baleno	DZIRE	Alto
5	Dzire	Dzire	i10	Eon	Grand i10	Elite i20	Grand i10	Wagon R	Elite i20	WagonR	DZIRE
6	Indica	Indica	i20	Amaze	Eon	Grand i10	Elite i20	Grand i10	Grand i10	Elite i20	Grand i10
7	Santro	i20	Eon	Grand i10	Elite i20	Celerio	Baleno	Elite i20	Wagon R	Grand i10	Elite i20
8	i20	Nano	Indica	i10	City	City	Kwid	Celerio	Celerio	Celerio	Spesso
9	Figo	Figo	Figo	i20	Celerio	Eon	Celerio	Kwid	Tiago	Amaze	Celerio
10	Nano	Santro	Ritz	Indica	Amaze	Amaze	CIAZ	Tiago	Amaze	Spesso	Tiago

Source: SIAM

MSIL's Leadership Position in Top 5 Utility Vehicle Models

In Utility vehicle segment, MSIL was late entrant. However it has conquered market dominance in the space with Brezza and Ertiga models in short span of time.

Exhibit 10: Top 5 UV Models

No.	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	Bolero	Bolero	Bolero	Bolero	Bolero	Bolero	BREZZA	BREZZA	BREZZA	BREZZA	Creta
2	Innova	Innova	Innova	Ertiga	Innova	Creta	Creta	Creta	Creta	Venue	BREZZA
3	Scorpio	Scorpio	Ertiga	Innova	Ertiga	Ertiga	Innova	Bolero	Bolero	Ertiga	Venue
4	Xylo	Xylo	Scorpio	Scorpio	ECOSPORT	Innova	Bolero	Innova	Innova	Creta	Seltos
5	Tavera	Sumo	Xuv500	Duster	Scorpio	Scorpio	Ertiga	Ertiga	Ertiga	Seltos	Ertiga

Source: SIAM

Aggressive Distribution Expansion

Over the last decade, MSIL has aggressively expanded its distribution network despite sluggish industry growth. Its total outlet has grown from 1100 to 3120 over FY12-21 at 15% CAGR which is highly impressive.

Exhibit 11: Distribution Expansion

No.	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY12-21	FY12-21
Total Sales Outlet	1,100	1,204	1,310	1,619	1,947	2,312	2,627	2,934	3,086	3,120	12.3%	15.0%

Source: Company Report

Over the last 5 years, MSIL has given high emphasis on expanding its NEXA and Commercial Channel sales outlets along with its traditional distribution outlets.

Exhibit 12: Distribution Expansion across Types

No.	2011	2012	2013	2014	2015	2021
Existing Channel	1,820	2,020	2,121	2,264	2,390	2,413
NEXA	127	252	316	360	375	380
Commercial Channel		40	190	310	321	327
Total Sales Outlet	1,947	2,312	2,627	2,934	3,086	3,120

Source: Company Report

Earnings Revision and introduction of FY24 estimates

To factor in slackness in production due to Semiconductor chips, for MSIL, we reduce our Volume, Sales and PAT estimates by 13.2%/12.8%/29.3% for FY22E respectively. However we have increased Volume and sales estimates by 3.5%/2.9% for FY23E respectively. FY23 PAT estimates remain largely unchanged due to higher tax incidence. We have also introduced FY24 estimates wherein we estimate double digit volume growth for the company along with 13.1% EBITDA margins.

Over FY22-24E, we expect MSIL to report 20.1% volume CAGR, 20.9% sales CAGR and 46.7% PAT CAGR. The Company is expected to report EPS of Rs286 and Rs347 in FY23E and FY24E respectively.

Exhibit 13: Earnings Revision

	FY22E	FY23E
Old Estimates		
Volumes	1851666	2036832
Net sales	921691	1024861
<i>Margins (%)</i>	8.2%	11.2%
PAT	60358	86420
New Estimates		
Volumes	1606362	2107574
Net sales	803895	1054081
Margins	7.0%	11.8%
PAT	42681	86340
Change (%)		
<i>Volumes</i>	-13.2%	3.5%
<i>Net sales</i>	-12.8%	2.9%
<i>Margins</i>	-122	60
<i>PAT</i>	-29.3%	-0.1%

Source: IDBI Capital Research

Financial Performance

Impressive 20.1% Volume CAGR over FY22-24E

We expect MSIL to report 20.1% volume CAGR over FY22-24E equally supported by rural and urban market. We also believe, export and CV business is also likely to add into incremental growth going forward.

20.9% Sales CAGR through FY22-24E

We expect MSIL to report 20.9% sales CAGR through FY22-24E on account of a) 20.1% volume CAGR over FY22-24E and b) 1% average realization CAGR on account of rich product mix. The Company is expected to report sales of Rs 1054bn and Rs1175bn in FY23E and FY24E respectively.

EBITDA Margins to approach growth Cycle Margin

Currently, MSIL's EBITDA margins are depressed due to lower volumes leading to low operating leverage. However as volumes picks up, we anticipate EBITDA margins to enter into lower teen range. During previous growth cycles i.e. during FY05-08 and FY15-18, average EBITDA margins for MSIL were 14% and 15% respectively. We have estimated 11.8% and 13.1% EBITDA margins for MSIL in FY23E and FY24E respectively.

PAT to grow at 56.7% CAGR over FY22-24E

MSIL is expected to report PAT CAGR of 56.7% FY22-24E on the back of 20.9% sales CAGR and 610bps EBITDA margin expansion during the same period. The Company is expected to report PAT of Rs 86.3bn and Rs104.7bn in FY23E and FY24E respectively.

Healthy Cash generation and cash pile up to continue

We expect MSIL to generate operating cash of Rs378bn and free cash of Rs233bn over FY21-24E respectively. Net cash on the book is expected to go up from Rs440bn (21% of Market) in FY21 to Rs606bn (29% of Market Cap) in FY24E.

Valuations and Recommendation

Super Bullish on MSIL's growth prospects - BUY with 44% Upside:

- For MSIL, while near term growth outlook remains challenging due to semiconductor chips shortages, we remain bullish on the MSIL's medium term growth prospects on account of a) Indian economy entering into a growth phase resulting in higher employment opportunities and increase in disposable income for masses b) Increasing trend towards having own vehicle rather than fully rely on shared mobility and c) low 4W penetration in India.
- We believe, MSIL is well placed to capitalize on growing demand for 4W in India due to its irreplaceable competitive advantages like strong brand and distribution network. With 3100+ distribution centers and seven blockbuster models (Dzire, Swift, Alto, Baleno, Ertiga, WagonR and Vitara Brezza). Although MSIL has witnessed tepid volume growth over FY12-21, it has tripled its distribution outlet from 1100 to 3200+ and has well established itself to serve upcoming market demand for 4W.
- The Company has strong financial profile and is expected to possess ~Rs606bn cash on its balance sheet by FY24E.
- Over the last 12 months MSIL has faced barrage of bad news including Covid -19 lockdown, unprecedented rise in Commodity prices, Bumper to Bumper Insurance and Semiconductor Chip shortages etc. We anticipate majority of these events are temporary in nature and may not last beyond 12 months. Hence the Company falls in category of **“Great Company in temporary trouble”**.
- We remain super bullish on MSIL's growth prospects. Over FY22-24E, we expect MSIL to report 20.1% volume CAGR and 46.7% PAT CAGR.
- At CMP of Rs7,201, MSIL stock is quoting at PE of 20.6x FY24 earnings. We reiterate our BUY rating on the stock and upgrade our price target from Rs8,585 to Rs10,405. We have valued the Company at PER 30x FY24E earnings which is in line in line with its 7 year average 12M forward earnings PE.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	7,03,325	8,03,895	10,54,081	11,75,269
<i>Growth (%)</i>	<i>(7.0)</i>	<i>14.3</i>	<i>31.1</i>	<i>11.5</i>
Operating expenses	(6,49,872)	(7,47,918)	(9,29,694)	(10,21,328)
EBITDA	53,453	55,977	1,24,387	1,53,941
<i>Growth (%)</i>	<i>(26.8)</i>	<i>4.7</i>	<i>122.2</i>	<i>23.8</i>
Depreciation	(30,315)	(33,402)	(38,109)	(43,064)
EBIT	23,138	22,575	86,278	1,10,878
Interest paid	(1,008)	(1,008)	(1,008)	(1,008)
Other income	29,464	31,784	34,646	39,761
Pre-tax profit	51,594	53,352	1,19,917	1,49,630
Tax	(9,297)	(10,670)	(33,577)	(44,889)
<i>Effective tax rate (%)</i>	<i>18.0</i>	<i>20.0</i>	<i>28.0</i>	<i>30.0</i>
Minority Interest	-	-	-	-
Net profit	42,297	42,681	86,340	1,04,741
Exceptional items	-	-	-	-
Adjusted net profit	42,297	42,681	86,340	1,04,741
<i>Growth (%)</i>	<i>(25.1)</i>	<i>0.9</i>	<i>102.3</i>	<i>21.3</i>
<i>Shares o/s (mn nos)</i>	<i>302</i>	<i>302</i>	<i>302</i>	<i>302</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	51,594	53,352	1,19,917	1,49,630
Depreciation	30,315	33,402	38,109	43,064
Tax paid	(9,297)	(10,670)	(33,577)	(44,889)
Chg in working capital	44,806	(5,520)	23,231	12,046
Other operating activities	(2,259)	-	-	-
Cash flow from operations (a)	1,15,159	70,563	1,47,680	1,59,850
Capital expenditure	(22,734)	(45,000)	(50,000)	(50,000)
Chg in investments	(53,191)	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(75,925)	(45,000)	(50,000)	(50,000)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	3,825	-	-	-
Dividend (incl. tax)	(16,389)	(13,718)	(27,749)	(33,663)
Chg in minorities	3,390	0	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(9,174)	(13,718)	(27,749)	(33,663)
Net chg in cash (a+b+c)	30,060	11,845	69,931	76,187

Balance Sheet (Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	1,64,468	1,76,066	1,87,958	1,94,894
Investments	4,17,867	4,17,867	4,17,867	4,17,867
Other non-curr assets	-	-	-	-
Current assets	89,130	1,13,865	2,04,986	2,91,858
Inventories	30,500	35,344	45,205	50,402
Sundry Debtors	12,766	18,582	24,365	27,167
Cash and Bank	30,271	42,116	1,12,047	1,88,234
Marketable Securities	-	-	-	-
Loans and advances	149	170	223	249
Total assets	6,71,465	7,07,798	8,10,810	9,04,619
Shareholders' funds	5,13,668	5,42,632	6,01,223	6,72,300
Share capital	1,510	1,510	1,510	1,510
Reserves & surplus	5,12,158	5,41,122	5,99,713	6,70,790
Total Debt	4,888	4,888	4,888	4,888
Secured loans	-	-	-	-
Unsecured loans	4,888	4,888	4,888	4,888
Other liabilities	6,990	6,990	6,990	6,990
Curr Liab & prov	1,45,919	1,53,288	1,97,710	2,20,440
Current liabilities	1,33,190	1,38,739	1,78,633	1,99,170
Provisions	12,729	14,549	19,077	21,270
Total liabilities	1,57,797	1,65,166	2,09,588	2,32,318
Total equity & liabilities	6,71,465	7,07,798	8,10,810	9,04,619
Book Value (Rs)	1,701	1,797	1,991	2,226

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	140.1	141.3	285.9	346.8
Adj. EPS growth (%)	(25.1)	0.9	102.3	21.3
EBITDA margin (%)	7.6	7.0	11.8	13.1
Pre-tax margin (%)	7.3	6.6	11.4	12.7
ROE (%)	8.5	8.1	15.1	16.4
ROCE (%)	4.5	4.2	14.8	17.1
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.1	1.2	1.4	1.4
Leverage factor (x)	1.3	1.3	1.3	1.3
Net margin (%)	6.0	5.3	8.2	8.9
Net Debt/Equity (x)	0.0	-0.1	-0.2	-0.3
Working Capital & Liquidity ratio				
Inventory days	15.8	16.0	15.7	15.7
Receivable days	6.6	8.4	8.4	8.4
Payable days	56.7	49.7	51.2	52.0

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	51.3	50.8	25.1	20.6
Price / Book value (x)	4.3	4.0	3.6	3.2
PCE (x)	30.1	28.5	17.4	14.7
EV / Net sales (x)	3.0	2.7	2.0	1.7
EV / EBITDA (x)	40.5	38.1	16.6	12.9
Dividend Yield (%)	0.6	0.6	1.3	1.6



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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