

News monitored for: JM Financial

MSIL can put pedal to rerating metal on volume, market gains

There could be margin pressures in the near term, given commodity costs

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Maruti Suzuki India (MSIL) disappointed the Street with weaker-than-expected financial performance in 2022-23 (FY23) January-March quarter (fourth quarter, or Q4).

Even as revenues were up 20 per cent over the year-ago quarter and 10 per cent sequentially to ₹32,048 crore, they still missed Street estimates.

While volumes grew 10.5 per cent on a sequential basis, the average selling prices were a smidge lower due to a weak product mix. Semiconductor unavailability affected the sales of the top-end variants/premium models, influencing realisations.

Whilst the company clocked in 19 per cent volume growth in FY23, the Street will focus on product launches and the carmaker's ability to outperform peers. MSIL's current order book is at a healthy 412,000 units. This is on the back of launches and improved demand. Its order book at the end of the October-December quarter was, however, at 366,000 units.

Although the Indian subsidiary of the Japanese automotive major

Suzuki Motor Corporation shed 170,000 in volume spawned by chip shortage, it expects the situation to ease in the quarters ahead.

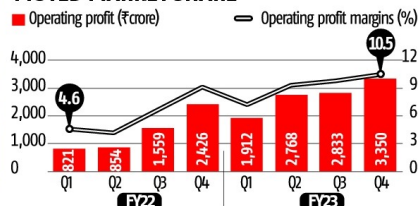
While the company anticipates the small car segment volumes to remain flat, it looks forward to outperforming the PV sector growth rate of 5-7 per cent in 2023-24 (FY24). The superior growth rate is expected to come from the sport utility vehicle (SUV) portfolio, higher sales of models powered by compressed natural gas (CNG), and the execution of its existing order book.

A third of its current order book is for CNG-driven vehicles, with increased demand for them riding on the back of lower gas prices after the central government's revised domestic gas pricing guidelines. For instance, CNG prices in Delhi at ₹73.59 per kilogram (kg) are about 18 per cent lower than the peak of just under ₹90 per kg in November last year.

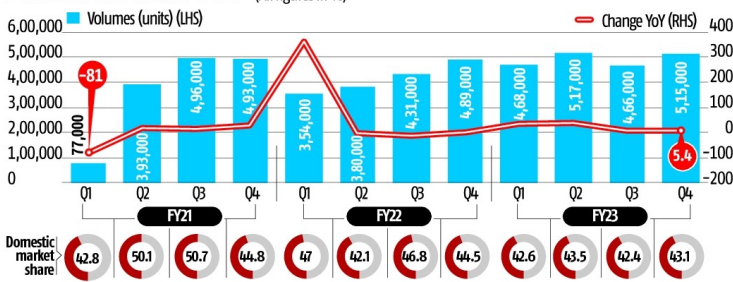
What will be crucial is the pace of growth for the SUV segment where the company has launched the Grand Vitara, the Jimny, and the Fronx in the past six months. The company lost market share over the past few years and its stock underperformed peers due



MUTED MARKET SHARE



MARGIN IMPROVEMENT (All figures in %)



to a weak portfolio line-up in the SUV space (and the industry shift to SUVs), muted performance in the entry-level segment it dominates, and the absence of adequate product launches. Brokersages believe this could alter.

"With the introduction of the Jimny and the Fronx, MSIL

intends to strengthen its presence in the B-segment (hatchbacks) and aim for a leadership position in SUVs in FY24," say analysts Vivek Kumar and Ronak Mehta of JM Financial Research.

"After two consecutive years of market-share loss, we believe MSIL is on the cusp of market-

share recovery, led by launches," they add.

Given the current order backlog (the Jimny and the Fronx have been well-received) and launches, the company seeks to increase its share of the SUV segment to 25 per cent in FY24, from half its levels last year, building on the Q4FY23

market share which improved to 18 per cent. The domestic PV market share for MSIL stands at 42.9 per cent in FY23—210 basis points (bps) lower than 2021-22.

While volume recovery and market-share gains will be the biggest triggers, the Street will also keep an eye on margins. Gross margins contracted 60 bps to 26.7 per cent on a sequential basis due to adverse product mix and foreign exchange (forex) impact. However, operating leverage aided the operating profit margin expansion by 70 bps to 10.5 per cent—slightly lower than Street estimates.

In the near term, there could be a potential negative impact from an increase in commodity costs (steel prices), chip shortage, and forex (appreciating yen) movement. Margin gains will largely be a function of price hikes and cost savings.

Since its results announcement, the MSIL stock is up 1.3 per cent. The extent of further gains will depend upon improvement in market share. Most brokerages have a 'buy' rating on the stock.

Say research analysts Mitul Shah and Aarti Garg of Reliance Securities, "Given the strong product basket, likely margin expansion, export potential, strong return ratios, and likely market-share gain after utility vehicle launches, we reiterate our 'buy' rating."

Maruti's Q4FY23 results were slightly weaker than expected (3 per cent earnings before interest, tax, depreciation, and amortisation miss) owing to a lower gross margin. The volume growth rate at the PV industry level is likely to moderate substantially in FY24, compared with FY23.