15 January 2025

Update | Sector: Automobiles

Maruti Suzuki

BSE SENSEX	S&P CNX
76,724	23,213

MARUTI SUZUKI

Stock Info

Bloomberg	MSIL IN
Equity Shares (m)	314
M.Cap.(INRb)/(USDb)	3756.3 / 43.5
52-Week Range (INR)	13680 / 9738
1, 6, 12 Rel. Per (%)	12/0/13
12M Avg Val (INR M)	6784
Free float (%)	41.8

Financials Snapshot (INR b)

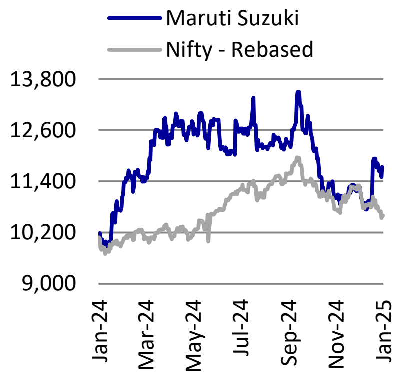
Y/E MARCH	2025E	2026E	2027E
Sales	1,501	1,673	1,863
EBITDA	179	201	228
Adj. PAT	145	161	180
Adj. EPS (INR)	461	512	573
EPS Gr. (%)	9.7	11.1	11.9
BV/Sh. (INR)	2,987	3,354	3,763
Ratios			
RoE (%)	14.8	15.3	15.2
RoCE (%)	20.5	20.3	20.2
Payout (%)	31.4	32.2	28.8
Valuations			
P/E (x)	25.9	23.3	20.8
P/BV (x)	4.0	3.6	3.2
EV/EBITDA (x)	16.8	14.6	12.5
Div. Yield (%)	1.2	1.4	1.4

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	58.2	58.2	56.5
DII	20.9	19.5	18.3
FII	17.7	19.0	21.8
Others	3.2	3.3	3.4

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR11,947 TP: INR14,500 (+21%) Buy

New launches to aid market share recovery

Exports likely to be the key growth driver

- **In this note, we highlight that it is only in two sub-segments within UVs (combined contribution at 10%), where MSIL may find it difficult to gain share and in most of the other segments, MSIL has a potential to ramp up its presence. Given its strong launch pipeline, MSIL appears well placed to gain meaningful market share in UVs in the coming years, thereby allaying investor concerns.**
- **Exports are likely to remain its key growth driver as MSIL aims to achieve exports of 750-800k units by 2031, which should translate into a 15% volume CAGR.**
- **We believe MSIL's multi-tech approach is best suited for Indian conditions as India is not yet ready for a transition to electric vehicles (EVs).**
- **While the timing cannot be predicted, we believe that car demand can revive in the coming years, having seen many years of underperformance, and MSIL should emerge as a major beneficiary of the revival.**
- **At 23x FY26E/21x FY27E EPS, MSIL is among the few largecap OEMs available at a discount to historic valuations. Reiterate our BUY rating with a TP of INR14,500, valuing at 26x Dec'26E EPS.**

New launches to help gain share in UVs, allay investor concern

In this note, we highlight that it is only in two sub-segments within UVs (combined contribution at 10%), where MSIL may find it difficult to gain a material share. In most of the other segments, it has the potential to ramp up its presence relative to peers, either with existing launches or upcoming new launches. Further, as per media reports, MSIL is expected to launch six new models in the next three to four years in its focus segments within SUVs. Thus, MSIL is well placed to gain market share even in UVs in the coming years, thereby allaying investor concerns around the same.

Exports likely to remain key growth driver

MSIL aims to achieve exports of 750-800k units by FY31, which should translate into a 15% volume CAGR in the same period. To achieve the target, MSIL is taking several initiatives: 1) introducing more models in its markets – Fronx and Jimny have emerged as their top two export models; 2) making India the export hub for EVs for Suzuki – starting with the launch of the upcoming eVX, MSIL plans to launch six EVs by FY31; 3) expanding in more markets – Fronx was the first MSIL SUV to be launched in Japan and is seeing good response; 4) further ramping up its distribution network.

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MSIL’s multi-tech approach augurs well for India

While electric vehicle adoption seems to be the preferred bet to meet upcoming emissions compliance, we think India is not yet ready to transition to EVs anytime soon. Given this, MSIL’s multi-tech approach seems best suited to meet emission compliance in India. In CNG, it is a market leader in PVs and the contribution from CNG has now increased to 24% in FY24 to 450k units with a target to sell 600k units in FY25. It has also introduced strong hybrids in Grand Vitara and Invicto in partnership with Toyota and it also plans to launch Suzuki’s low-cost hybrid tech in India for low-end models. Further, in EVs, MSIL targets to achieve scale by focusing on exports first and ramping up presence in the domestic market, as and when EV demand improves. It is also working on vehicles compliant with flex fuels. Further, MSIL would emerge as the major beneficiary if the government considers a tax subsidy on any of these clean technologies (hybrid or flex fuels).

India will have a healthy mix of cars for a long time

Before writing off the car segment, one has to remember that there is a huge population of 2W customers in India who aspire to own their first car. Further, family nuclearization is driving household growth, which should boost demand for cars in the coming years. Cars are likely to remain relevant in India due to their compact size, fuel efficiency and versatility, making them the ideal choice for first-time buyers. While we do believe that the small car segment will certainly not go back to its previous peak, we expect the contribution of this segment to stabilize at least at the current level if not go up in the near term. Whenever this happens, MSIL is expected to emerge as a major beneficiary given its dominant position in this segment with close to 63% market share.

Valuation and View

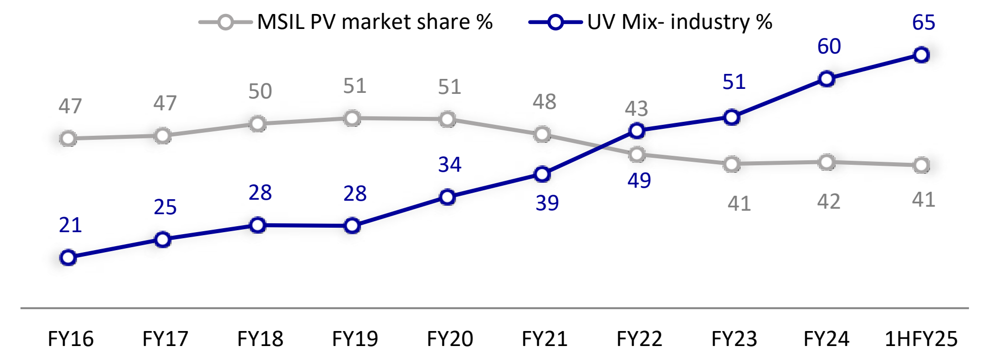
For FY26, we see multiple launch tailwinds for MSIL, such as its first EV for India and exports, hybrid variants, and one SUV. Further, any favorable policy for hybrids by the government may drive a re-rating as MSIL would be the key beneficiary of the same. We expect MSIL to deliver an 11% earnings CAGR over FY24-27E, driven by new launches and strong export growth. While we have factored in stable margins over FY24-27E, there could be an upside risk to our estimates if PV demand revives and MSIL is able to retain the benefits of an improving mix. At 23x FY26E/21x FY27E EPS, valuations appear attractive. Reiterate our BUY rating with a TP of INR14,500, valuing at 26x Dec’26E EPS.

Gradually ramping up presence where it matters!

Understanding MSIL's presence in UVs

It is now a well-established fact that one of the key reasons for MSIL losing share in the domestic PV segment has been the significant pace of SUV ramp-up in India. From just 21% in FY16, the contribution of UVs has surged to 60% of total industry volume in FY24 and ~65% in 1HFY25. While MSIL has a strong 65.5% market share in the car segment, it has a much lower 25.5% share in UVs, which is a much more fragmented industry.

Exhibit 1: MSIL has lost market share in PVs due to rapid shift in industry mix towards SUVs



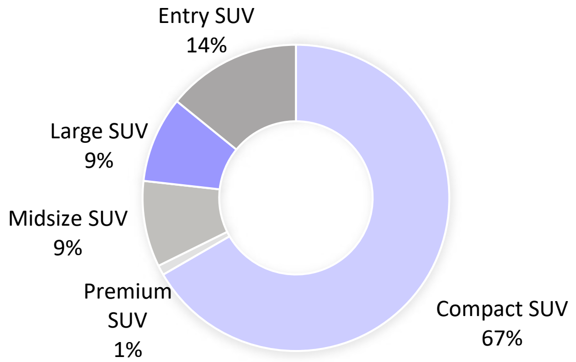
Source: SIAM, MOFSL

The sharp shift in consumer preference toward UVs in the last few years has been one of the major concerns for MSIL investors as many of them are circumspect on whether MSIL will be able to emerge as a strong player in this fast-growing category.

In order to understand MSIL's relative standing in UVs, we look at the SUV market and how MSIL is placed in each of its sub-segments. We also analyze the segments where MSIL can grow and those where MSIL will find it difficult to gain share or take time to ramp up its presence.

We divide the SUV segment based on its utility as below:

Exhibit 2: SUV mix for the industry for 1HFY25



Source: SIAM, MOFSL

- **Compact SUV**: includes all compact SUVs like Hyundai Exter, Venue, Creta and the likes
- **Entry SUV**: includes 7-seater but compact UVs like Ertiga
- **Mid-size SUV**: includes 7-seater mid-range SUVs like Alcazar and Scorpio
- **Large SUV**: includes SUVs like XUV700, Innova, Fortuner and the likes
- **Premium SUV**: includes SUVs like Jeep Compass, Tuscon and the likes

Understanding MSIL's presence in various SUV sub-segments

SUV Segment	FY24 Annual volumes	Industry mix %-1HFY25	Market share %-1HFY25	MSIL's ability to have healthy presence
 Compact SUV	16,45,302	67	26	
 Entry SUV	334,147	14	62	
 Large SUV	250,817	9	1	
 Mid-size SUV	227,855	9	NA	
 Premium SUV	62,275	1	NA	

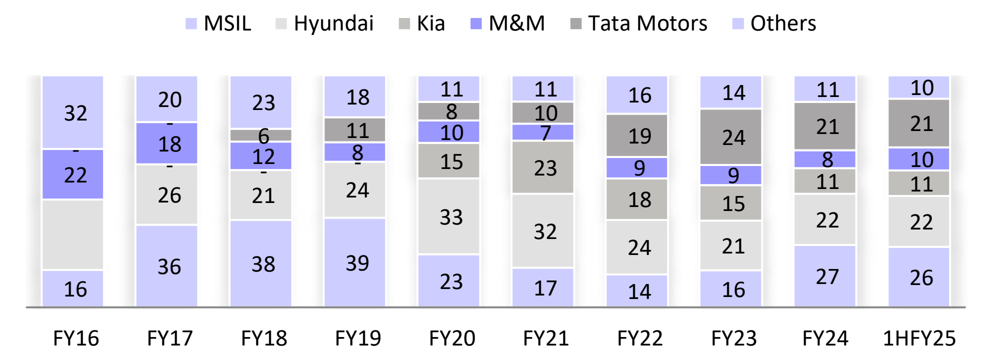
Source: SIAM, MOFSL

Compact SUV

The compact SUV segment has been the fastest-growing sub-segment in the Indian PV industry and has seen a substantial ~30% volume CAGR in the last 10 years. As a result, this sub segment now makes up over 62% of the total SUV market. The sub-segment also has the highest competitive intensity in the industry. Just to elaborate here, the top five OEMs hold 89% market share, with the market leader having 26% market share.

Despite the significant competitive intensity in this sub-segment, MSIL has emerged as the market leader in this segment. It is important to note that MSIL's market share had sharply improved to 36%-39% in this segment during FY17-19 after the launch of Brezza. However, during FY20-23, this segment saw multiple launches from Hyundai (Venue), Tata Motors (Punch) and Kia (Seltos and Sonet). Each of these models went on to become customer favorites in their categories – a key reason for MSIL's significant market share loss in this segment. Its market share in this sub-segment plunged to 14% in FY22 from 39% in FY19. However, during FY23-24, MSIL launched three products in this segment, namely Grand Vitara, Fronx and Jimny. While two of these models have become strong brands, Jimny has not yet found any great customer connect in India. On the back of these new launches, MSIL has recovered its leadership position in this segment and now commands ~26% share in this segment.

Exhibit 3: MSIL is the market leader in compact SUV segment with 26% market share



Source: SIAM, MOFSL

Given the price positioning of this segment (INR0.8m to INR2.5m), we think MSIL, being a well-established brand over the last few years, can gradually ramp up its presence in this segment in the coming years.

Premium SUV

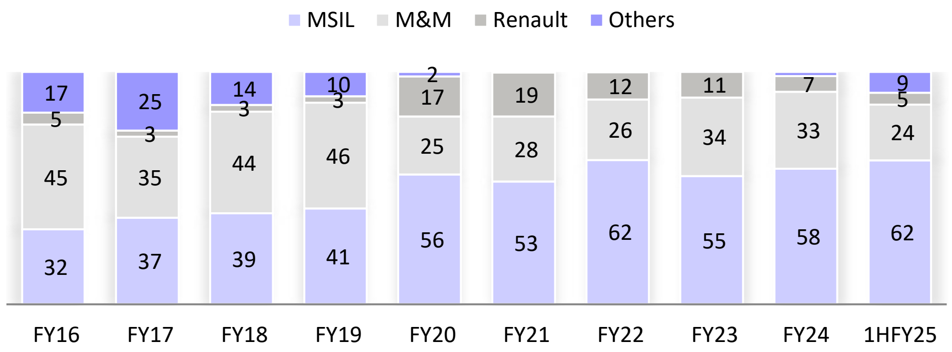
The contribution of this segment has increased marginally to over 1% of total SUV volume from a negligible presence a decade ago. MSIL does not have any vehicle in this segment as yet. Given the premium price positioning of this category, we think MSIL is likely to find it difficult or take time to gain a meaningful presence in this segment.

Entry-level SUV– This is the one segment that has seen the most impact from the ramp-up of the compact SUV mix over the last decade. The contribution of this segment has come down to 13% in FY24 from 32% in FY16. This segment is dominated by only two players – MSIL (58% share) and MM (33% share).

Over the years, MSIL's Ertiga has emerged as a strong product, both for personal and tourist operations. Even today, Ertiga is one of the few products in the industry that enjoys a waiting period on some variants.

From a price positioning perspective, it ranges around INR1m to INR1.6m. Again, given the price positioning and MSIL's well-established brand image, we expect the company to continue to do well in this category going forward.

Exhibit 4: MSIL has a dominant presence in the entry-level SUV segment with ~62% share

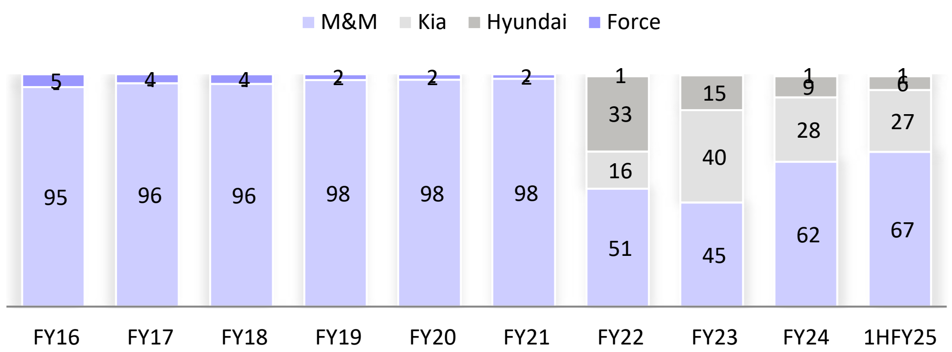


Source: SIAM, MOFSL

Mid-size SUV – This segment is dominated by MM. However, Kia Carens is also doing well in this category. The overall contribution of this segment has slightly come down to about 9% in FY24 from 10% in FY16.

MSIL has never launched any product in this segment. However, given the price positioning, we believe MSIL has a reasonably high probability of gaining healthy market share in this segment if it launches a good product (see next section for more details).

Exhibit 5: MSIL has the potential to gain share in this segment with new launches



Source: SIAM, MOFSL

Large and high-end SUVs – The contribution of this segment has come down to 10% from 22% in FY16. This segment is dominated by Toyota's Innova and Fortuner and MM's XUV 700. MSIL has a presence in this segment with the Invicto – a product produced by Toyota but sold by MSIL. Invicto is the same as Innova Hycross.

However, given Innova's strong brand positioning in India, MSIL's Invicto has not received any great response so far. Also, given the price positioning and the significant brand presence of Toyota in this segment, we think MSIL may find it difficult or may take time to gain a significant share in this segment.

Planning new launches in its "focus segments"

As already indicated by management, MSIL is gearing up to execute its Vision 3.0 – which envisages MSIL doubling its production capacity to 4m units and tripling exports from India in the next seven years. Management has also highlighted that MSIL intends to expand its product portfolio to 28 from 17 currently.

As per media reports, we understand that MSIL is planning to launch six new models in the next three to four years. Each of these models are positioned in the UV segment, where MSIL targets to improve its presence. Based on media reports, below are some of the new launches lined up by MSIL:

MSIL eVX SUV: Maruti will make its EV debut with a midsize electric SUV at the Bharat Mobility Show this month. This will compete with Creta (EV), but unlike Hyundai, this will be a born EV built on a bespoke electric platform. The eVX is expected to have a five-seat layout, two battery pack options, and a maximum range of 550km. The eVX will also be exported to Japan and Europe in the future.

Maruti's upcoming 7-seater - A three-row version of the **Grand Vitara** is expected soon. This is an open white space for MSIL and a category where MSIL has the potential to gain a meaningful share in the long run.

MSIL micro-SUV – Given the huge success of the micro-SUV segment, MSIL is gearing up to gain a foothold in this sub-segment. This is likely to be positioned below Brezza, making it the fourth SUV after Jimny, Brezza and Fronx in the compact SUV segment. MSIL seems to be eyeing this segment to target budget-conscious customers. The micro-SUV segment has also been taking away a meaningful market share of cars. Thus, this model will likely help MSIL retain its potential target customers.

Compact MPV: A new compact MPV seems to be also in the works. This is likely to be a compact 7-seater, which is likely to compete with Renault Triber.

Maruti's electric MPV: The born-EV architecture will spawn multiple body styles. Along with eVX, an all-new MPV is likely to be under development too.

Small electric hatch: While this model is still some time away, it is likely to be the first MSIL EV launch in cars.

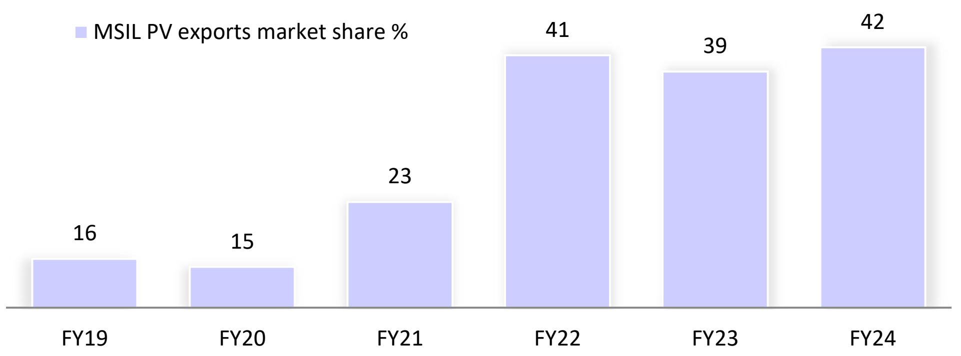
Our View: As highlighted above, most of MSIL's upcoming new launches are planned in the segments where the company has an opportunity to ramp up its presence. Given the strong line-up of models planned over the next few years in its focus segments, we believe MSIL is well placed to gain market share even in UVs, and hence in overall PVs, in the coming years.

#2 Exports will remain key growth driver going forward

As of FY21, MSIL’s exports were in the range of 100-120k units per year. After Covid-19, MSIL started focusing on ramping up exports, which then jumped to 259k units in FY24. In fact, in FY24, MSIL’s exports grew 10% YoY, whereas exports by the rest of the industry declined 3.9% YoY, thereby securing a market share of about 42% in PV exports. Exports account for ~13% of MSIL's total volumes and around 15% of its overall vehicle sales.

Fronx, Jimny, Baleno, Dzire, and S-Presso are the top export models of Maruti Suzuki. While the company exports 17 models to nearly 100 countries, key markets include South Africa (~29%), Saudi Arabia (13%), Chile (6%), Mexico (5%), and the Philippines (4%). MSIL's robust distribution network and its ongoing efforts to enhance capacity and capabilities, along with the expansion of its product portfolio, have enabled the company to capitalize on favorable demand conditions in various markets.

Exhibit 6: MSIL’s export market share in PVs stood at ~42% in FY24



Source: Company, MOFSL

Targets to achieve 750-800k exports by FY31

The company is focusing and aligning with the Government of India’s vision of ‘Make in India for the World’ and is going all out in its efforts to increase exports. Additionally, the OE supply of vehicles to Toyota through SMC in the African market will also help to grow exports.

Overall, MSIL aims to reach an annual export target of 750k-800k units by FY31, which translates into about 15% CAGR in this period. To achieve this goal, the company is increasing production capacity, expanding its export-focused product offerings, and further strengthening its distribution network in key regions.

MSIL’s efforts to ramp up exports are as highlighted below:

Ramp-up of made-in-India Jimny for exports

Maruti Suzuki had begun exporting the made-in-India Jimny 5-door to several international markets, including the Middle East, Latin America and Africa in Oct’23. In Dec’23, the made-in-India Jimny commenced exports to Australia. India is currently the only market that manufactures the Jimny 5-door, being the sole export hub for this model.

Jimny is now the 2nd largest export model for MSIL. Jimny is seeing strong demand particularly in Europe, Japan, and Southeast Asia, where demand for compact off-road vehicles is rising. Its unique position as an affordable, compact, and rugged SUV has enabled it to capture niche markets, especially in areas with strong off-road cultures, such as Australia and parts of Africa. Given Jimny's strong acceptance in key export markets, management expects Jimny to contribute 12% of MSIL's volumes by 2028 (vs. 3.5% now), as per media reports.

Fronx – emerged as largest export model for MSIL

MSIL started exporting Fronx to Latin America, the Middle East, and Africa in Jul'23 and to Japan in Aug'24. After Baleno in 2016, Fronx is the second model from Maruti Suzuki, and the first 'Made-in-India' SUV, to be exported to Japan. We understand that Fronx is seeing strong demand in its key export markets. For YTDFY25, it has already seen sales jump ~5x YoY to 5k units per month and it is now the most sold export model for MSIL for the current fiscal, surpassing Jimny.

EV strategy

The company's EV strategy is expected to play a crucial role in its global ambitions. To accelerate the development of EVs globally, Suzuki Corp. plans to make India a global manufacturing hub for EVs. Suzuki has chosen India as the production hub for EVs due to the huge potential for the domestic market and low manufacturing costs.

MSIL will start exporting its made-in-India EV globally from 2025, with the launch of eVX at the Bharat Mobility Show later this month. Maruti eVX will be produced at Suzuki's Gujarat plant, which has a production capacity of 250k units p.a. and the start of production (SOP) is scheduled for Mar'25.

Plans to launch more models in several countries and enhance distribution network

Given that all its models are not sold in all 100 export markets, MSIL intends to launch more models in more countries globally going forward. For instance, as of FY24, the top four export models for MSIL (Baleno, Dzire, Swift and S-Presso) accounted for 57% of its export volumes, with Baleno leading the pack. As highlighted above, for YTDFY25, Fronx has now emerged as the best-selling model contributing 19% of its exports, followed by Jimny (16%), and Baleno has now slipped to the 3rd spot (13%).

Exhibit 7: Export mix of key models of MSIL

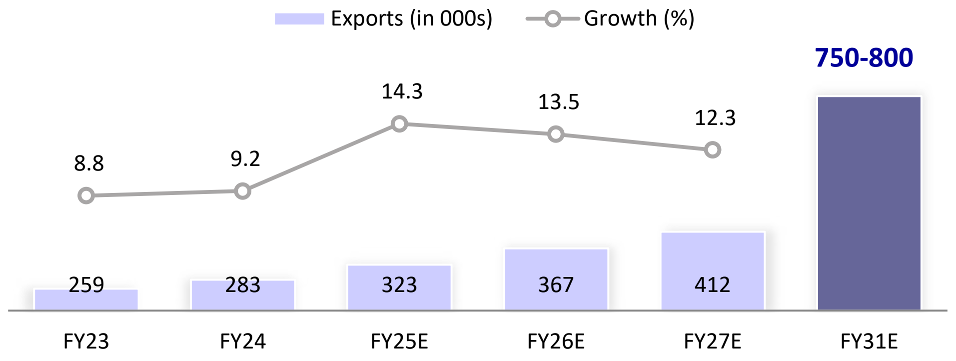
Exports mix %	FY23	FY24	FY25 YTD
Fronx	0	5	19
Jimny	4	8	16
Baleno	16	21	13
DZIRE	19	14	11
Swift	16	12	8
S-Presso	13	10	8
Grand Vitara	2	8	7
Others	31	21	17

Source: SIAM, MOFSL

It also plans to further increase its distribution reach to cover more markets. Moreover, the company plans to bolster its distribution network by implementing successful practices adopted in India. These initiatives include facilitating bank finance at dealerships, instilling customer confidence through after-sales services, ensuring easy access to parts, and establishing an effective customer complaint handling system, all aimed at attracting more buyers in international markets.

Our View: Fronx has been very well accepted in its key markets, including Japan, and remains one of the key growth drivers for MSIL's exports. Jimny is also seeing strong demand in most of its markets where it has been launched. MSIL will start exports of eVX in the coming months. Given its focus on exports and in line with its long-term target, we expect MSIL to clock a 13% CAGR in export volumes over FY24-27E.

Exhibit 8: MSIL targets exports of 750-800k units by FY31E



Source: MSIL, MOFSL

#3 Emission compliance – why MSIL seems best placed

Understanding CAFÉ compliance

CAFE norms are imposed on a carmaker's entire fleet. It is a limit set on the total emission of carbon dioxide produced by the company. In 2014, two sets of average fuel consumption standards were announced. The first has come into effect in FY18, while the next came into effect in FY23. In the first phase until 2022, OEMs were obliged to meet a base target of 130gm of CO2/km, based on an average industry kerb weight of 1,037kg (Individual company targets were different). In the second phase, which came into effect in FY23 onward, the emission target was reduced by about 13% to 113gm of CO2/km, based on an average industry kerb weight of 1,145kg.

Upcoming CAFÉ norms are far more stringent

The proposed CAFÉ-III norms that are expected to come into effect in Apr'27 will impose stricter limits, capping CO_2 emissions at 91.7gm/km at WLTP (world harmonized light-vehicles testing procedure) for the PV segment. This will be further reduced to 70 gm CO2/km in CAFE 4. The norms will require carmakers to reduce carbon emission and fuel consumption for the entire fleet in the next three years. These parameters will also be measured as per WLTP.

Higher mix of EVs and hybrids helps to comply with emissions

CAFE norms allow for super credits. Carmakers can get credits by selling relatively cleaner vehicles. This is done by adopting battery electric vehicles (BEV), plug-in hybrids (PHEV) and hybrid electric vehicles (HEV). The credits are awarded as follows: 3 for BEV, 2.5 for PHEV, and 2 for HEV. This means that one BEV sale will be counted as 3 and so on, making the target easier to reach.

Additionally, manufacturers can also use advanced technology to gain an advantage. For instance, advanced features that help reduce emission like regenerative braking, idle start-stop, tyre pressure monitoring, six or more speed transmission have a reduction factor of 0.98. This means that if any of the sold vehicles have some or all of these features, then the CO2 emission for that vehicle is recalculated after multiplying it by 0.98 (for each feature) to give them an advantage.

How do different fuel types score in CAFÉ compliance?

The below table shows that CNG, hybrid, and EVs offer significant CO2 emission reductions compared to traditional petrol and diesel-powered vehicles. CNG vehicles emit 20-25% less CO2 than petrol vehicles, making them the cleanest among fossil fuel options. Hybrid vehicles, which combine an internal combustion engine with an electric motor, reduce CO2 emissions by about 20-30% compared to their petrol or diesel counterparts. EVs do not produce direct tailpipe emissions and eliminate CO2 emissions at the point of use entirely, making them the most efficient option in terms of reducing emissions. However, the overall CO2 efficiency of EVs depends on the source of the electricity used for charging, with renewable energy sources further improving their environmental benefit.

Exhibit 9: CO2 emission comparison across fuel types

Fuel Type	CO_2 Emissions (g/km)	Key Notes
Petrol	~110-140 g/km	❖ Higher emissions compared to CNG and hybrids; varies based on engine size.
Diesel	~120-160 g/km	❖ Emits more NOx and particulate matter.
CNG	~90-100 g/km	❖ Cleanest among fossil fuels; emits ~20-25% less CO_2 than petrol.
Hybrid	~80-100 g/km	❖ Combines ICE with electric motor, reducing CO_2 by ~20-30% vs. petrol/diesel.
Electric Vehicles	0 g/km (at tailpipe)	❖ No direct emissions; indirect CO_2 depends on electricity source (grid mix).

Source: Industry, MOFSL

Non-compliance with emission norms: A costly oversight

We understand that there are stringent penalties that OEMs would have to bear if they are unable to comply with emission regulations. In FY23, the penalties for non-compliance were as below:

- INR25,000 per unit if a carmaker's fleet CO2 emissions exceed the targeted CAFE score by 0-4.7 grams per km
- INR50,000 per unit if it exceeds by over 4.7 grams per km

While the penalties for non-compliance are severe, we understand that many companies have not been able to comply with CAFÉ regulations even to meet FY23 norms. Thus, the effectiveness of the regulatory policy would depend on how strictly the Govt is able to levy penalties on OEMs going forward.

MSIL's multi-fuel approach seems best suited for India

EVs seem the right choice – but is India ready for EVs?

Needless to say that EVs remain the best choice to comply with emission norms. This is the key reason why the government is pushing the industry to accelerate the EV transition. This is also the reason why many OEMs are focusing on EVs as a means to achieve emission compliance. While EV certainly seems to be the best choice from an emission compliance perspective, the key question that needs to be addressed is: Is India ready for the EV transition?

We do not think so. We think India is likely to gradually transition to EVs, especially in passenger vehicles. While the government has provided adequate incentives to push EV adoption, we expect the transition to pick up gradually given multiple headwinds for the adoption: 1) the lack of adequate charging infra; 2) high cost of adoption; 3) the lack of clarity on the resale value, among others. Even if charging infra development is accelerated, the customer is unlikely to be willing to wait for a couple of hours for his vehicle to be charged, in the absence of a provision for own charger.

Leave alone India, EV adoption even in developed countries like Europe seems to be taking a back-seat recently for the same issues. As a result, while EVs seem to be the obvious and the correct choice to target emission compliance, we think India is far from ready to adopt this change quickly and hence other cleaner fuel options should be considered for the same, in our view.

MSIL has a strategy in place for EVs

As highlighted above, MSIL plans to launch its much-awaited EV, the eVX, at the Bharat Mobility Show later this month. This EV has been jointly developed by Suzuki, Toyota and Daihatsu Motor. Further, MSIL targets to launch six BEVs by 2031, targeting to cover a significant addressable market by then. MSIL targets to use India as an export hub for EVs for both Suzuki and Toyota. This will help MSIL achieve scale and be ready for domestic demand, when the market is ready.

MSIL will continue to push for CNG adoption

MSIL continues to have the highest portfolio of 15 CNG models in its fleet. As per Vahan data, CNG mix in MSIL's portfolio has increased to 31% in CY24 from 25% in CY23. This has translated into a dominant market share of 71.6% in CNG for MSIL in CY24. CNG adoption in personal mobility segment is also rising. For instance, CNG adoption for personal mobility segment is 25% in Swift and 25-30% in Dzire. MSIL targets to sell over 600k units of CNG vehicles in FY25 – which translates into 38% YoY growth.

It is optimistic about leveraging the expanding CNG infrastructure to boost sales further. While 90% of MSIL's CNG sales come from the top 10 cities, it is now focusing on ramping up its presence in the next 10 cities as well with the increase in CNG infrastructure. Although CNG vehicles are not as clean as hybrids, they still offer a better environmental performance than petrol or diesel cars, as CNG emits almost 30% less CO2 than petrol and diesel.

MSIL to introduce its own hybrid tech in mass market vehicles

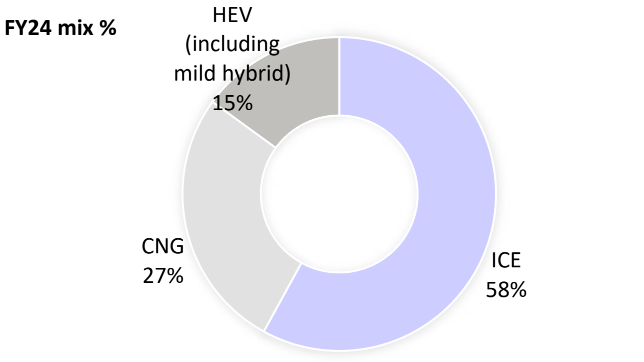
Strong HEVs offer a compelling value with a lower carbon footprint and no range anxiety, leading to strong consumer acceptance. It contributed 2.1% of industry volumes in FY24, up from 1.1% in FY23. Hybrid vehicles can improve fuel efficiency by 35% to 45% and reduce carbon emissions by 25% to 35%. MSIL is using Toyota strong hybrid tech in Grand Vitara and Invicto.

However, as per media reports, MSIL is also working on Suzuki's own hybrid tech, which is expected to power its future line-up of models. Maruti's hybrid for the masses will not be similar to Toyota's series parallel hybrid setup but will come with a significantly cheaper series parallel hybrid setup. In this system, the petrol engine in a series hybrid setup works only as a generator or range extender. This means that instead of directly moving the vehicle, the system produces electricity to power an electric motor that, in turn, drives the wheels. This system is also called range extender because the internal combustion engine works as a generator to keep recharging the EV's battery pack. Given the relatively lower cost, we expect this technology to be launched in multiple models in compact SUVs as well as cars segments.

Other alternate fuels: India has significant potential for biogas production from agricultural, animal, and human waste. Biogas is renewable, carbon-negative, and free of import content. Its production could reduce paddy stubble burning and improve cleanliness. MSIL is trialing biogas production and awaits supportive government policies. Additionally, it is working on engine modifications to use petrol blended with up to 20% ethanol and exploring technology for higher ethanol blends. It unveiled India's first mass-segment flex fuel prototype car WagonR FFV, which is capable of operating with ethanol blends ranging from 20% to 85% with gasoline. This vehicle offers similar performance to traditional fuels and could lower running costs due to the price difference between gasoline and E85.

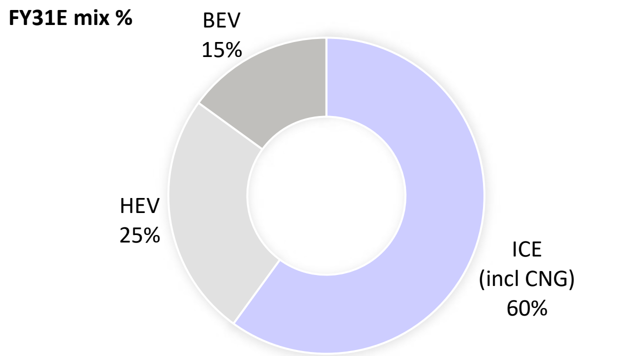
Our View: MSIL has adopted a multi-fuel approach to comply with upcoming emissions. Once introduced, Maruti will have pure petrol, petrol mild-hybrid, petrol strong hybrid (series), petrol strong hybrid (Toyota supplied), petrol+CNG and pure EV powertrain options across its line-up of cars, SUVs and MPVs. The core idea is to offer customers what they want and not focus on any particular technology. Given its well diversified powertrain strategy, MSIL targets to achieve the below powertrain mix by FY31: BEVs - 15%, hybrids - 25%, and ICE (including CNG + biofuels) - 60%. This multi-fuel tech strategy seems to be the best approach to move towards emission compliance, in our view, given that India does not seem to be ready to adopt EVs anytime soon.

Exhibit 10: MSIL's green fuel mix currently stands at 42%



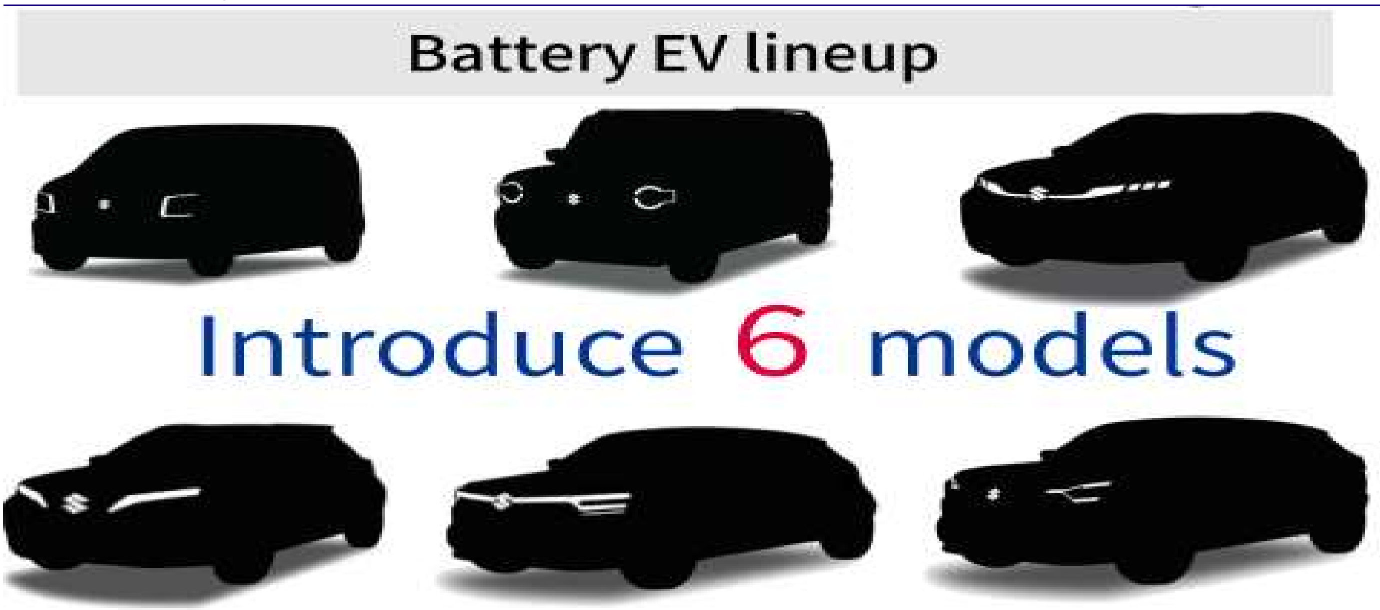
Source: Company, MOFSL

Exhibit 11: EVs to contribute 15% of MSIL's mix by FY31



Source: Company, MOFSL

Exhibit 12: Product plan until FY31



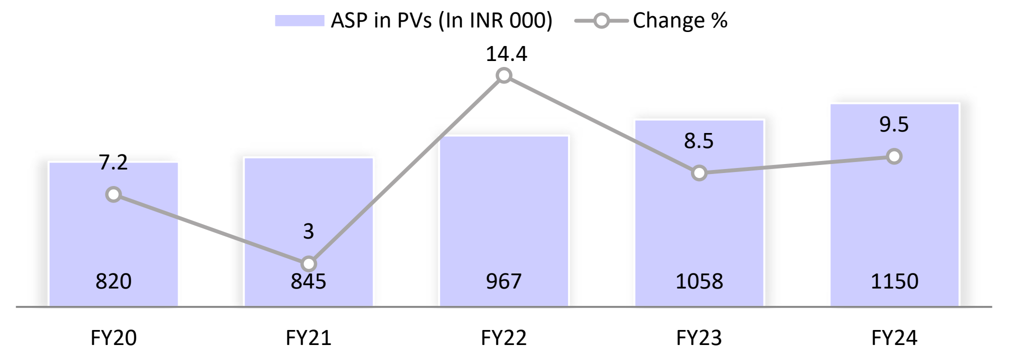
Source: Company, MOFSL

#4 Cars segment recovery: A delay, not a denial

Car demand remains weak due to many reasons

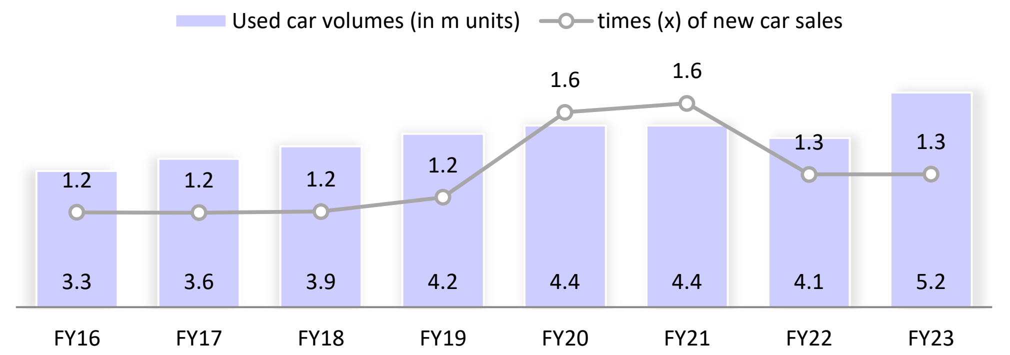
The car industry continues to see weak demand for the last few years due to various factors, such as: 1) 50%+ cost hike in car prices since FY18 due to regulatory interventions and input cost pressure, which has driven reduced affordability for potential customers; 2) reduced price differentiation between SUVs and cars, with more and more micro SUV launches in the entry segment shifting consumer preference towards SUVs; 3) the lack of excitement in the segment with no new launches, as most OEMs focus on SUVs. The average on-road price for hatchbacks has increased from INR5.2 lakh to INR8.2 lakh in the last six years. The sharp price hikes in the car segment have also led to a noticeable shift toward used car sales, which is making up for the widening price gap in the new car sales for first-time buyers. Over the past five years, the Indian pre-owned car market saw a CAGR of about 7%, compared to a modest 4-5% growth in the new PV market.

Exhibit 13: Average PV realizations clocked 9% CAGR over FY19-25E for top 4 OEMs



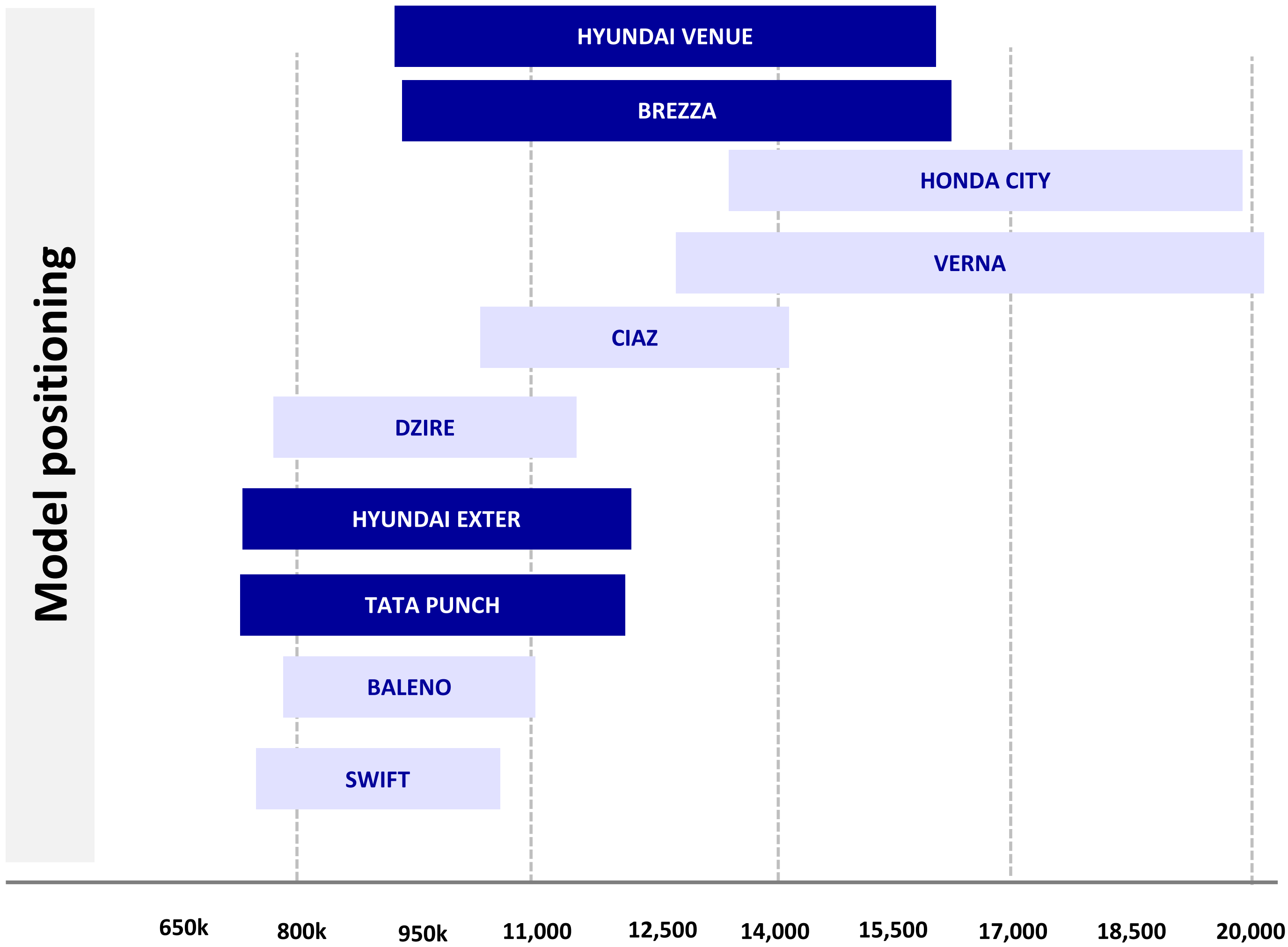
Source: Company, MOFSL

Exhibit 14: Used car sales volumes saw 7% CAGR over FY16-23 vs. ~5% in new PVs



Source: Company, MOFSL

Aggressive pricing by Compact SUV dents car demand



On-road prices Delhi, INR in 000s

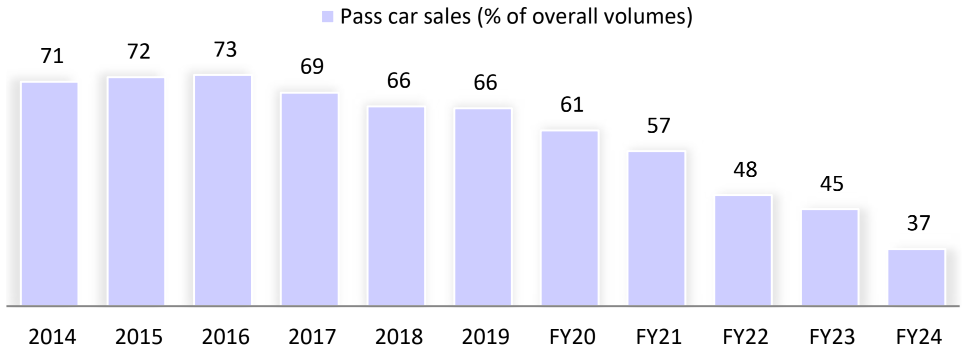
Source: Industry, MOFSL

Exhibit 15: Compact SUV has witnessed most number of model launches in last 10 years

Number of models in each segments	FY14	FY24
Entry level	28	15
Sedan	21	6
Large SUV	20	18
Premium SUV	3	7
Midsize SUV	3	6
Entry SUV	9	5
Compact SUV	5	24
Grand Total	**89**	**81**

As a result of the above factors, the contribution of the car segment has sharply declined to 37% of PV industry in FY24 from 66% in FY18.

Exhibit 16: Passenger cars sales mix among overall domestic PV has been declining



Source: SIAM, MOFSL

Will cars die a natural death? We don't think so

The consistent weakening of demand in cars over the last few years has led to a debate among industry experts arguing whether or not car demand will ever rise, given the rapid shift in customer preference toward UVs. We believe that while the segment is certainly facing some challenges, it does have the potential to bounce-back, especially in a price-sensitive market like India. Even industry experts believe that hatchbacks would remain relevant in India due to their compact size, fuel efficiency and versatility, making them the ideal choice for first-time buyers. With advancements like automatic transmission and multiple powertrains like petrol and CNG being available, small cars offer a compelling value proposition to prospective first-time buyers.

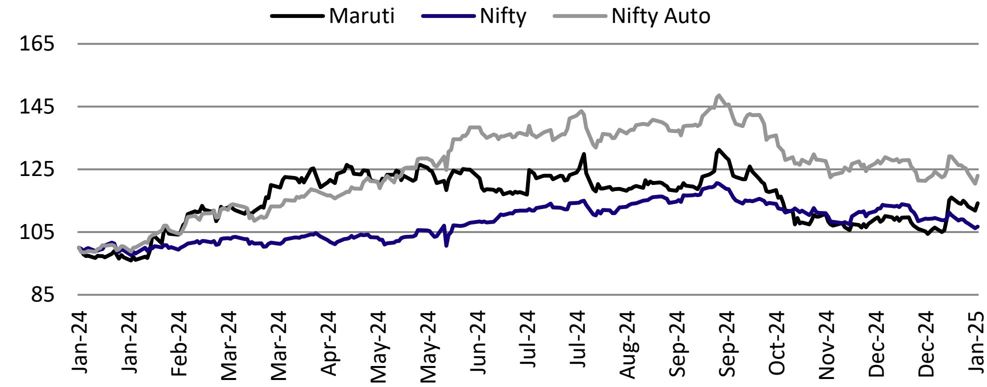
Before writing off the car segment, one has to remember that there is a huge population of 2W customers in India who aspire to own their first car. A larger number of 2W customers (who do not own a car) are likely to upgrade first to small cars before moving to SUVs. Further, the nuclearization of families is driving household growth, which is also expected to boost demand for cars in the coming years.

We expect the gap between the ability of a customer to buy a small car and the price of a small car, to keep narrowing, which would in turn shift the demand trend back in favor of this segment. While we do believe that the small car segment will certainly not go back to its previous peak, we do expect the contribution of this segment to stabilize at least at the current level if not go up in the near term. Whenever this happens, MSIL is expected to emerge as a major beneficiary given its dominant position in this segment with close to 63% market share.

View and valuation

One of the key investor concerns about MSIL has been its declining market share over the years, which is attributed to the rapid shift in consumer preference towards UVs – a segment where MSIL does not have a dominant presence. This has also led to the stock's underperformance in the last 12 months.

Exhibit 17: MSIL performance relative to Nifty and Auto Index – last 12M



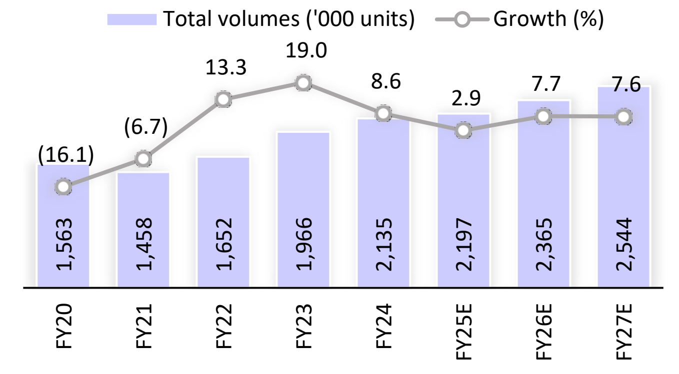
However, it is important to highlight that despite the significant competition in the UV segment, MSIL is a market leader in this segment, despite having a presence in 78% of the market. While it strives to increase its market share and the contribution of UVs in its mix, the other important point to highlight is that it is only in 11% of the SUV segment, where MSIL is likely to find it difficult to gain presence at this stage. We also understand that most of MSIL's upcoming new launches (6 new launches in the next 3-4 years) are likely to be in its focus segments, where MSIL can establish/ramp up its presence. Given these factors, we expect MSIL to gain share in the UV segment in the coming years, which will help MSIL regain investor confidence.

Another major concern is that MSIL has been late in launching EVs in its portfolio. However, while EVs are likely to be the best choice to meet emissions, we believe that India is not yet ready to ride the EV transition wave immediately. We think MSIL seems to have the right strategy in place for adopting a multi-tech approach and has multiple powertrain options, including EVs, hybrids, CNG and flex fuels. The idea is to give all options to customers and let them decide which is best suited for their needs. Further, by making India an EV hub for both Suzuki, MSIL would be able to generate scale, which in turn would help MSIL develop a viable long-term EV business model. Apart from this, its hybrids (from both Toyota and Suzuki) are likely to provide intermediate solutions before India looks to transition in a big way toward EVs.

Further, we expect exports to continue to be a key growth driver for MSIL and help it mitigate any slowdown in the domestic market. Also, while the timing cannot be predicted, we believe that car demand can revive in the coming years, having seen many years of underperformance, and MSIL is expected to emerge as a major beneficiary of the same, whenever this happens.

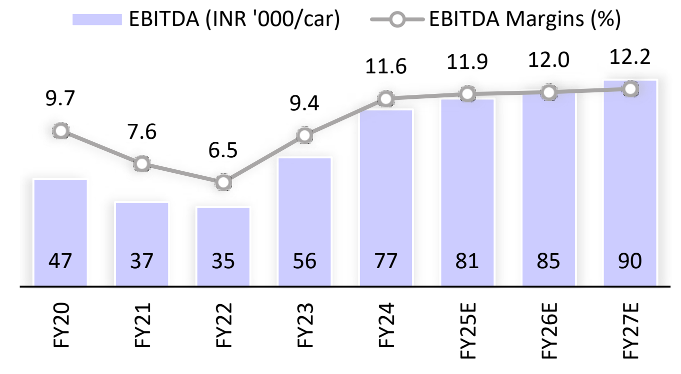
Any favorable policy for hybrids by the government may drive a re-rating as MSIL would be the key beneficiary of the same. We expect MSIL to deliver an 11% earnings CAGR over FY24-27E, driven by new launches and strong export growth. While we have factored in stable margins over FY24-27E, we expect upside risk to our estimates if PV demand revives and MSIL is able to retain the benefits of an improving mix. Post its recent underperformance, MSIL is attractively valued at ~23x FY26E/21x FY27E EPS. MSIL is one of the few players in the largecap auto OEM space, which has not got re-rated for concerns highlighted above. We think MSIL's healthy launch pipeline (starting with its first EV) and focus on exports ramp-up would help allay these concerns. Reiterate our BUY rating with a TP of INR14,500, valuing at 26x Dec'26E EPS.

Exhibit 18: MSIL's volume assumption



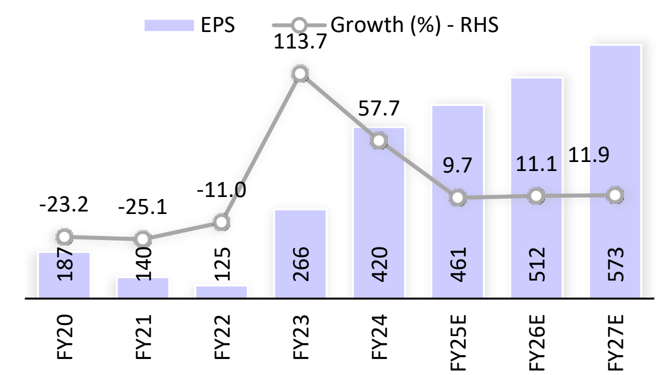
Source: Company, MOFSL

Exhibit 19: EBITDA margin and EBITDA per car



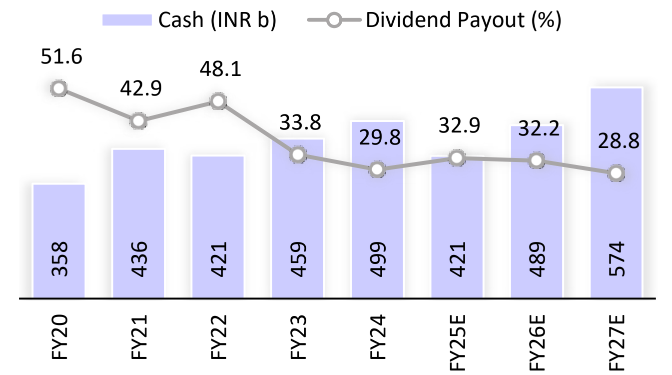
Source: Company, MOFSL

Exhibit 20: EPS (INR) and growth in EPS



Source: MOFSL, Company

Exhibit 21: Dividend payout (%) and cash balance (INR b)

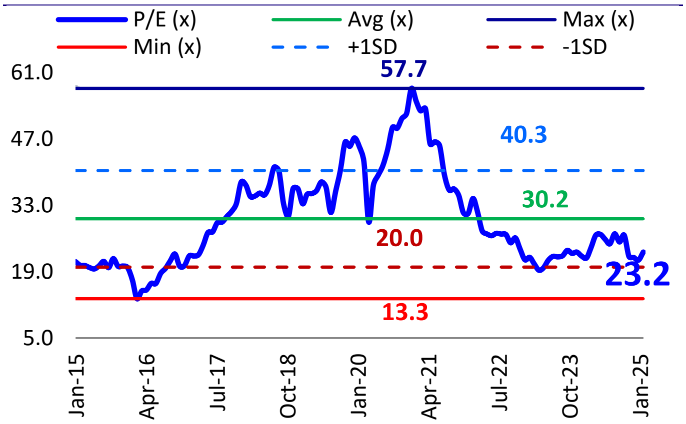


Source: MOFSL, Company

Exhibit 22: Key Operating Indicators

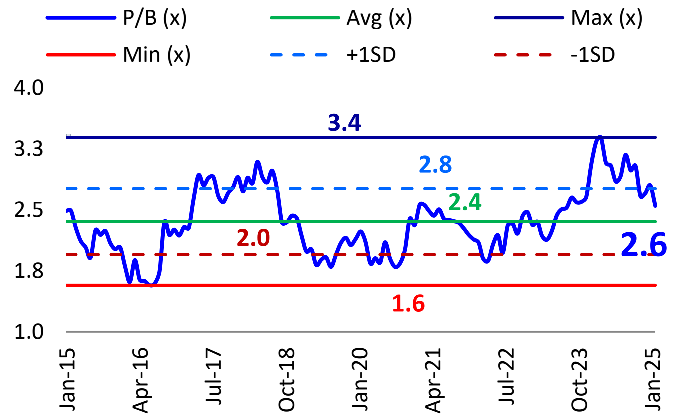
Auto OEM's	Rating	CMP (INR)	Vol/Rev Gr (%) FY25E	Vol/Rev Gr (%) FY26E	Vol/Rev Gr (%) FY27E	EBITDA Margins (%) FY25E	EBITDA Margins (%) FY26E	EBITDA Margins (%) FY27E	EPS (INR) FY25E	EPS (INR) FY26E	EPS (INR) FY27E	PE (x) FY25E	PE (x) FY26E	PE (x) FY27E	RoE % FY25E	RoE % FY26E	RoE % FY27E
Bajaj Auto	Neutral	8,576	8.2	10.4	9.1	20.0	20.0	20.0	292.3	337.1	388.5	29.4	25.5	22.1	31.1	32.2	33.3
Hero MotoCorp	Buy	4,112	5.8	6.1	6.2	14.2	14.0	14.0	227.6	240.3	260.3	17.8	16.8	15.5	24.5	24.2	24.5
TVS Motor	Neutral	2,251	12.3	11.7	10.3	11.6	12.0	12.3	53.5	66.1	79.0	40.7	32.9	27.6	28.9	28.2	26.8
Eicher Motors	Sell	5,086	6.4	8.0	8.0	26.0	25.7	25.7	160.2	175.8	195.1	30.8	28.1	25.3	22.5	21.5	20.8
Maruti Suzuki	**Buy**	11,941	**2.9**	**7.7**	**7.6**	**11.9**	**12.0**	**12.2**	**461.1**	**512.4**	**573.4**	**25.9**	**23.3**	**20.8**	**14.8**	**15.3**	**15.2**
M&M	Buy	2,960	11.8	9.7	9.1	14.2	14.3	14.5	101.3	120.6	141.2	29.6	24.9	21.3	21.3	21.5	21.3
Tata Motors	Neutral	763	-3.2	5.1	5.8	13.2	12.8	12.8	65.6	59.5	64.7	11.5	12.6	11.6	25.1	18.6	17.1
Hyundai	Buy	1,797	-1.2	5.7	8.6	12.8	13.2	13.2	67.3	75.6	85.2	26.8	23.9	21.2	44.4	38.9	35.1
Ashok Leyland	Buy	207	-3.3	8.1	8.2	11.9	12.3	12.8	9.3	11.3	13.5	21.8	17.9	15.0	28.9	30.6	31.5
Escorts	Neutral	3,476	22.5	7.0	9.0	11.8	12.1	12.6	102.0	113.8	140.6	32.4	29.0	23.5	12.9	13.0	14.3

Exhibit 23: One-year forward P/E (x) band



Source: Company, MOFSL

Exhibit 24: One-year forward P/B (x) band



Source: Company, MOFSL

Financials and valuations

Income Statement

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Op Income	**756.1**	**703.3**	**883.0**	**1,175.2**	**1,409.3**	**1,500.7**	**1,672.6**	**1,863.0**
Change (%)	-12.1	-7.0	25.5	33.1	19.9	6.5	11.5	11.4
EBITDA	**73.0**	**53.5**	**57.0**	**110.1**	**164.0**	**179.0**	**201.3**	**228.0**
EBITDA Margins (%)	9.7	7.6	6.5	9.4	11.6	11.9	12.0	12.2
Depreciation	35.3	30.3	27.9	28.2	30.2	30.3	32.1	35.7
EBIT	**37.8**	**23.1**	**29.1**	**81.8**	**133.8**	**148.7**	**169.2**	**192.4**
EBIT Margins (%)	5.0	3.3	3.3	7.0	9.5	9.9	10.1	10.3
Interest	1.3	1.0	1.3	1.9	1.9	1.9	1.5	1.4
Other Income	34.2	29.5	17.9	21.6	38.5	43.9	44.2	46.3
EO Expense	0.0	0.0	0.0	0.0	0.0	8.4	0.0	0.0
PBT	**70.6**	**51.6**	**45.8**	**101.6**	**170.4**	**182.4**	**212.0**	**237.2**
Effective tax Rate (%)	20.0	18.0	17.8	20.8	22.5	24.0	24.0	24.0
PAT	**56.5**	**42.3**	**37.7**	**80.5**	**132.1**	**138.6**	**161.1**	**180.3**
Adj. PAT	**56.5**	**42.3**	**37.7**	**80.5**	**132.1**	**145.0**	**161.1**	**180.3**
Change (%)	-23.2	-25.1	-11.0	113.7	64.1	9.7	11.1	11.9

(INR B)

Balance Sheet

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Sources of Funds								
Share Capital	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Reserves	482.9	512.2	539.4	602.3	838.2	937.5	1,053.1	1,181.5
Net Worth	**484.4**	**513.7**	**540.9**	**603.8**	**839.8**	**939.1**	**1,054.6**	**1,183.1**
Loans	1.1	4.9	3.8	12.2	0.3	0.3	0.3	0.3
Deferred Tax Liability	6.0	3.8	-2.0	-3.4	-1.1	-1.1	-1.1	-1.1
Capital Employed	**491.4**	**522.4**	**542.7**	**612.6**	**839.0**	**938.3**	**1,053.8**	**1,182.3**
Application of Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Fixed Assets	297.3	314.6	324.9	389.7	423.0	538.3	608.3	688.3
Less: Depreciation	140.2	165.0	187.7	211.7	238.0	268.3	300.4	336.1
Net Fixed Assets	**157.1**	**149.6**	**137.2**	**178.0**	**185.0**	**270.0**	**307.9**	**352.2**
Capital WIP	14.1	14.9	29.3	29.0	65.3	30.0	40.0	40.0
Investments	364.7	417.9	407.6	477.6	685.1	720.1	780.1	860.1
Curr.Assets, Loans	**84.4**	**112.9**	**152.4**	**138.1**	**160.9**	**191.8**	**220.6**	**247.9**
Inventory	32.1	30.5	35.3	42.8	41.2	61.7	68.7	76.6
Sundry Debtors	21.3	12.8	20.3	33.0	46.0	41.1	45.8	51.0
Cash & Bank Balances	0.2	30.4	30.4	0.4	4.6	19.9	28.7	33.7
Loans & Advances	5.2	6.6	0.3	0.3	0.3	0.3	0.3	0.3
Others	25.5	32.7	66.1	61.6	68.7	68.7	77.0	86.2
Current Liab & Prov.	**128.8**	**172.9**	**183.8**	**210.1**	**257.3**	**273.6**	**294.8**	**318.0**
Sundry Creditors	74.9	101.6	97.6	117.8	145.8	164.5	183.3	204.2
Others	44.9	60.3	71.1	75.9	91.3	91.3	91.3	91.3
Provisions	9.0	11.0	15.1	16.3	20.1	17.8	20.2	22.5
Net Current Assets	**-44.4**	**-59.9**	**-31.4**	**-72.0**	**-96.4**	**-81.8**	**-74.2**	**-70.1**
Appl. of Funds	**491.4**	**522.4**	**542.7**	**612.6**	**839.0**	**938.3**	**1,053.8**	**1,182.3**

(INR B)

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Basic (INR)								
Adjusted EPS	**187.1**	**140.0**	**124.7**	**266.5**	**420.1**	**461.1**	**512.4**	**573.4**
Cash EPS	303.8	240.4	216.9	359.9	516.3	557.4	614.5	686.9
Book Value per Share	1,603	1,700	1,790	1,999	2,671	2,987	3,354	3,763
DPS	60.0	45.0	60.0	90.0	125.0	145.0	165.0	165.0
Div. payout (%)	32.1	32.1	48.1	33.8	29.8	31.4	32.2	28.8
Valuation (x)								
P/E	63.8	85.3	95.8	44.8	28.4	25.9	23.3	20.8
Cash P/E	39.3	49.7	55.0	33.2	23.1	21.4	19.4	17.4
EV/EBITDA	44.4	59.2	55.7	28.5	18.7	16.8	14.6	12.5
EV/Sales	4.5	4.8	3.8	2.8	2.3	2.1	1.8	1.6
P/BV	7.4	7.0	6.7	6.0	4.5	4.0	3.6	3.2
Dividend Yield (%)	0.5	0.4	0.5	0.8	1.0	1.2	1.4	1.4
FCF Yield (%)	0.0	1.7	-0.4	0.8	2.2	1.3	1.9	2.5
Profitability Ratios (%)								
RoIC	26.5	18.9	26.8	54.2	73.1	65.0	58.0	54.8
RoE	11.7	8.2	7.0	13.3	15.7	14.8	15.3	15.2
RoCE	14.6	10.1	8.7	16.9	20.5	20.5	20.3	20.2
Turnover Ratios								
Debtors (Days)	11	7	9	11	12	10	10	10
Inventory (Days)	17	17	16	15	12	17	17	17
Creditors (Days)	51	73	54	50	53	56	56	56
Work. Cap. (Days)	-23	-49	-29	-24	-28	-28	-29	-29
Asset Turnover (x)	1.5	1.3	1.6	1.9	1.7	1.6	1.6	1.6
Net Debt/Equity (x)	-0.7	-0.8	-0.8	-0.7	-0.6	-0.4	-0.5	-0.5

Cash Flow Statement (INR B)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Profit before Tax	70.9	51.6	45.8	101.6	170.4	182.4	212.0	237.2
Interest	1.3	1.0	1.3	1.9	1.9	1.9	1.5	1.4
Depreciation	35.3	30.3	27.9	28.2	30.2	30.3	32.1	35.7
Direct Taxes Paid	-14.4	-10.1	-11.8	-22.3	-35.6	-43.8	-50.9	-56.9
(Inc)/Dec in WC	-25.7	43.4	-28.1	3.8	22.8	0.8	1.2	0.9
Other Items	-33.5	-27.8	-17.2	-20.9	-38.1	-43.9	-44.2	-46.3
CF from Oper.Activity	**34.1**	**88.4**	**17.9**	**92.3**	**151.7**	**127.6**	**151.6**	**172.0**
(Inc)/Dec in FA	-34.0	-23.3	-33.2	-62.5	-69.6	-80.0	-80.0	-80.0
Free Cash Flow	**0.1**	**65.1**	**-15.3**	**29.8**	**82.0**	**47.6**	**71.6**	**92.0**
(Pur)/Sale of Invest.	29.4	-49.6	31.3	-17.7	-37.2	8.9	-15.8	-33.7
CF from Inv. Activity	**-4.6**	**-72.8**	**-1.9**	**-80.2**	**-106.8**	**-71.1**	**-95.8**	**-113.7**
Change in Networth	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inc/(Dec) in Debt	-0.5	3.7	-1.1	7.9	-12.0	0.0	0.0	0.0
Interest Paid	-1.3	-1.0	-1.3	-1.9	-1.5	-1.9	-1.5	-1.4
Dividends Paid	-29.1	-18.1	-13.6	-18.1	-27.2	-39.3	-45.6	-51.9
CF from Fin. Activity	**-31.0**	**-15.4**	**-16.0**	**-12.1**	**-40.6**	**-41.2**	**-47.0**	**-53.3**
Inc/(Dec) in Cash	**-1.6**	**0.1**	**0.0**	**0.0**	**4.2**	**15.3**	**8.8**	**5.0**
Add: Op. Balance	1.8	0.2	0.3	0.3	0.3	4.6	19.9	28.7
Closing Balance	**0.2**	**0.3**	**0.3**	**0.3**	**4.6**	**19.9**	**28.7**	**33.7**

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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