On road to the new destination

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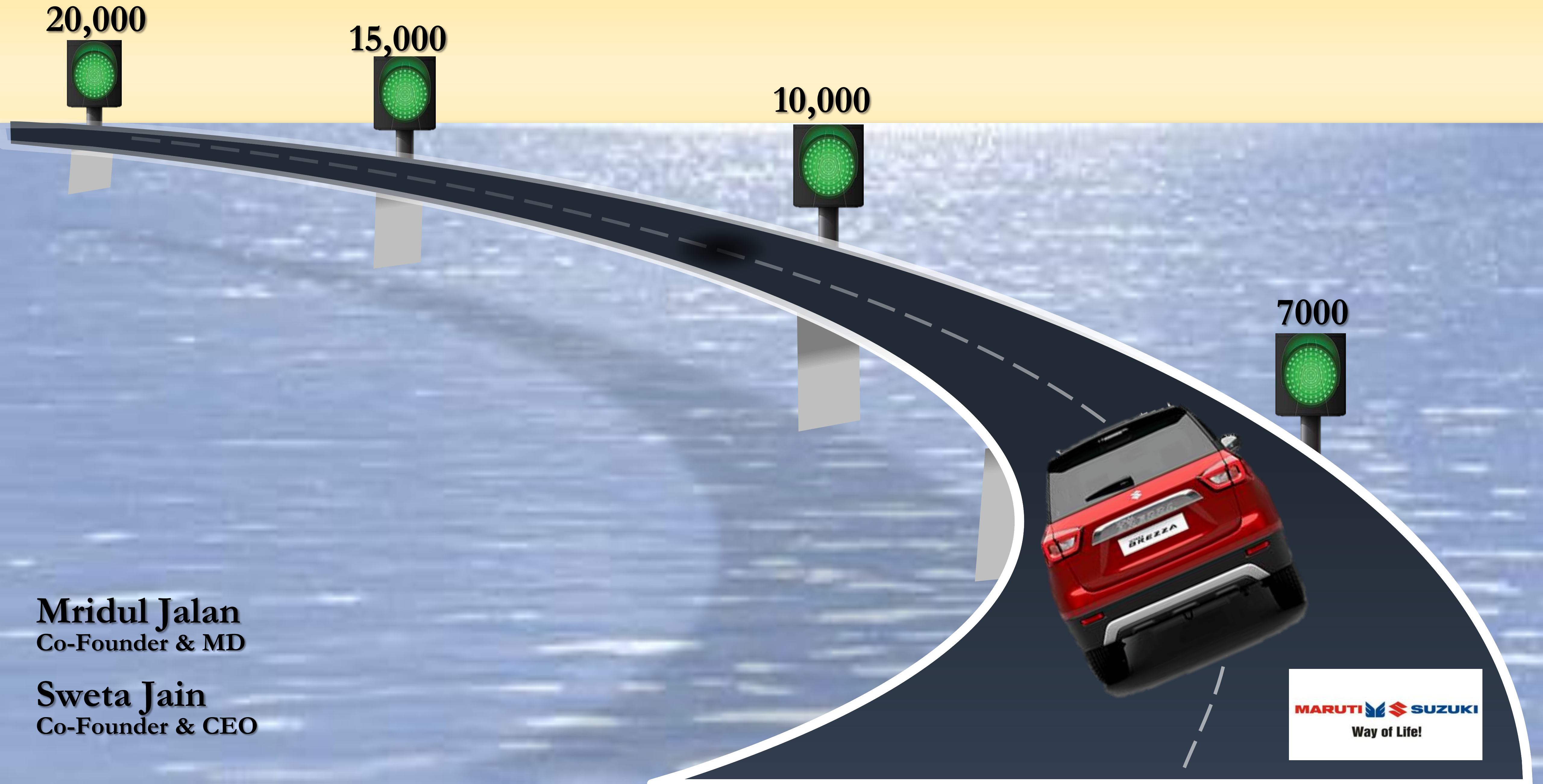


Mridul Jalan
Co-Founder & MD

Sweta Jain
Co-Founder & CEO

Truth

Revenue increased marginally at 1.6% CAGR whereas EBITDA/ PAT declined at a CAGR of 10%/5% over FY16-21, driven by

1. Demonization in Nov’16
2. Implementation of GST from Jul’17
3. Covid pandemic in Dec’19

Concerns

1. Unfavorable demand scenario affecting the ability to take adequate price hikes
2. Exorbitant increase in raw material costs
3. Recent shortage of semi-conductors

Opportunity

1. The EV thrust is threatening the PV landscape. However, we feel Maruti is insulated as first time, cost conscience buyers would prefer entry-level traditional cars
2. The Toyota tie-up will aid Maruti to capture a sizable market share in EV space with minimal spend on R&D, thus insulating P&L as well

Demand comeback?

We believe demand will do a comeback due to:

1. Per capita income/ GDP growth
2. Increased impetus on road infrastructure (revenue doubled between 2004 to 2009)
3. Focused approach to tap the emerging EV space

Margin profile

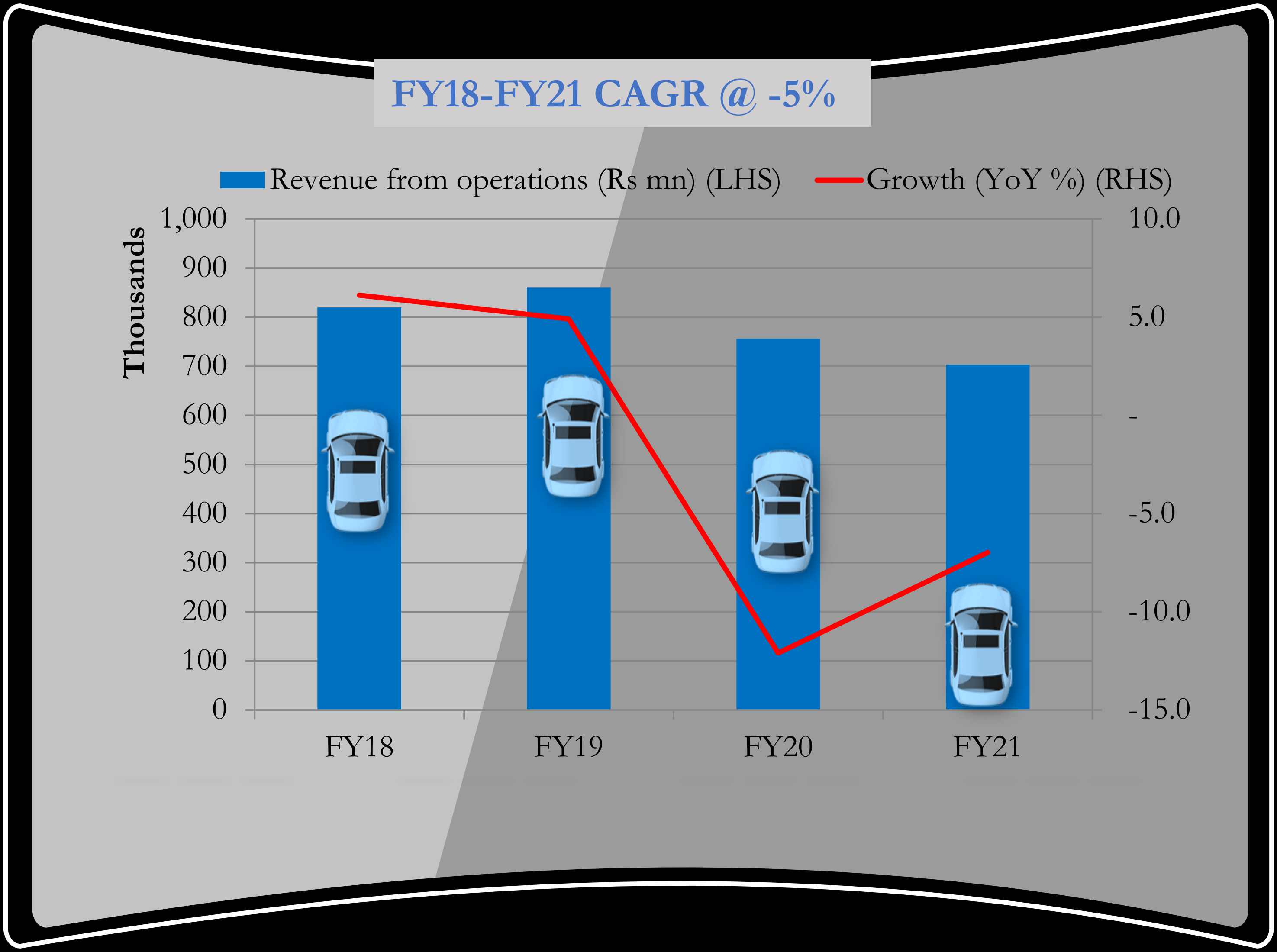
Further, we believe as demand revives, operating leverage will come into play and boost operating margin profile:

1. Increased pace of price hikes– last taken in April/July
2. Correction in metal prices
3. Planned capex in semi-conductor space to ease out supply issues

Valuations

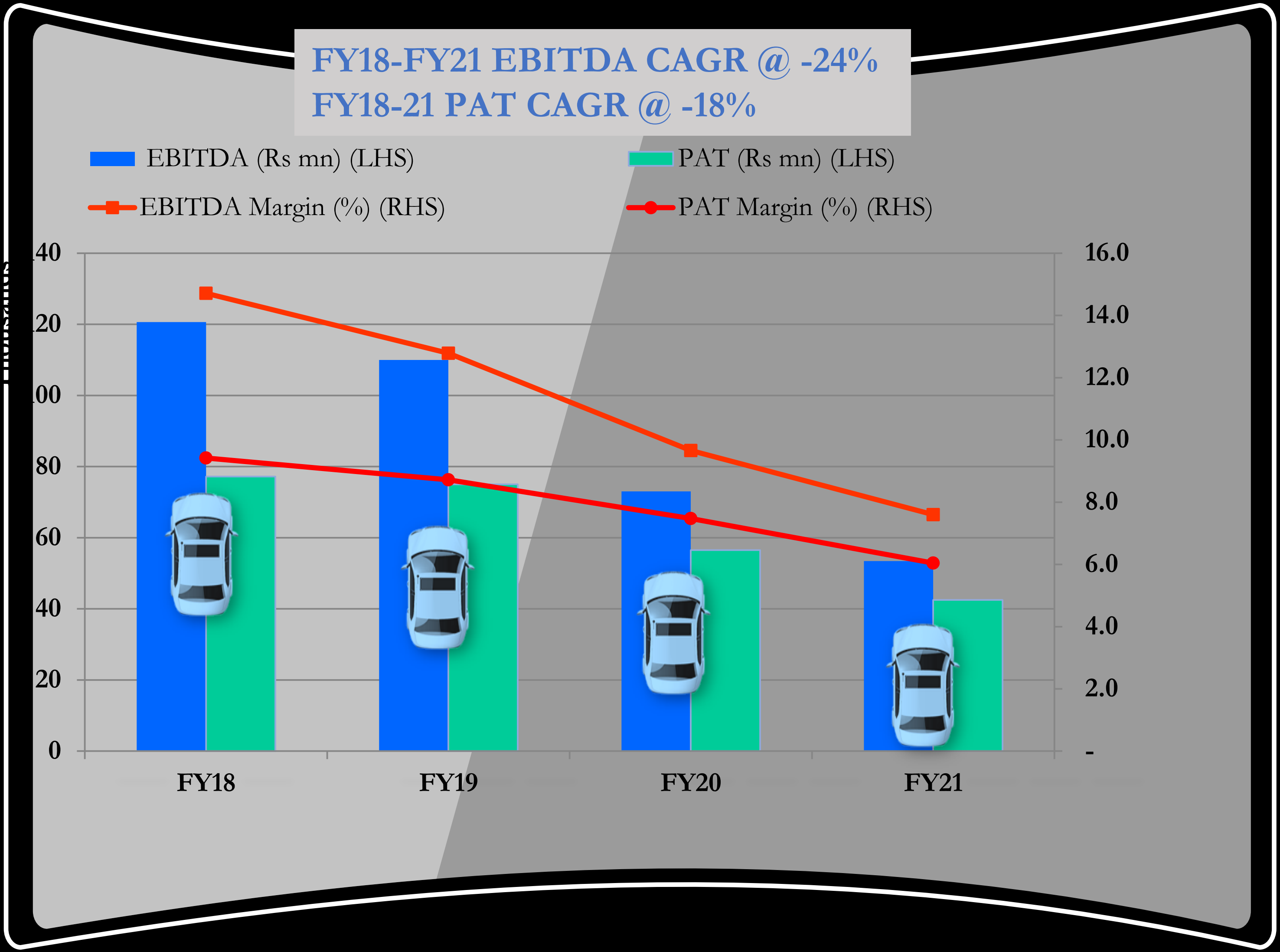
1. Valuations are driven by earnings. As earnings will increase aided by revenue and margin levers, we believe multiples will also increase
2. We believe Maruti has strong potential to quadruple its earnings by FY26 and expect the stock to reach 20,000 levels over the next 4 years at over 45x FY26E earnings

Story so far…



- Auto sector was primarily in a low demand cycle (car sales fell 18% yoy) during FY20 due to macro headwinds - NPAs and related financing issues, BS VI migration, rising cost of acquisition, etc.
- Covid-19 further, accentuated the problem and led to a sudden fall during Mar/Apr'20 lockdown restrictions
- This impact continued for over months, until we witnessed partial un-lockdown in certain states, impacting 1HFY22 as well
- However, with increasing relaxations, it is expected that demand environment will improve; albeit supply chain remains a concern over shortage of semi-con chips

Story so far…



- Raw material prices have been increasing YoY, impacting the operating margins negatively. Cost of materials have increased more than 400bps for the company since FY18
- As volumes reduced, negative operating leverage kicked in affecting margins adversely
- Further, during COVID, the company's cost of people also increased as it supported the employees benefit/health programs
- The company could only judiciously increase prices on selective models marginally

Changing dynamics at play

1 Un-lockdown demand

We believe that the auto industry will see an upcycle in the next 2-3 years, driven by improving macros, pick-up in replacement demand, positive rural sentiments and low interest rates. Maruti, being the market leader in the PV segment with ~46% market share, will be a major beneficiary of this up cycle

2 New product launches

Upcoming product launches are likely to include new generation Brezza, above-4m SUV, Jimny off-roader, MPV and strong hybrids. Historically, new launches have aided the market share gains for the company

3 Supply side changes

Chip shortage impact is expected to reduce over the next 6/9 months in a staggered manner, once the increased lead time will be offset as the manufacturers shift gears towards auto demand. We believe markets will reflect this change in the price over the next quarter or so

SIAM, an apex industry body, has reported in July 2021 that passenger vehicle sales were up 39% compared to pre-COVID July 2019 sales and the utility vehicles and vans sales increased by a phenomenal 73.7%. The upswing in sales was despite the fact that the Indian automobile industry "continues to face heavy headwinds in the form of a global semiconductor shortage and steep rise in commodity prices" as per Rajesh Menon, DG, SIAM

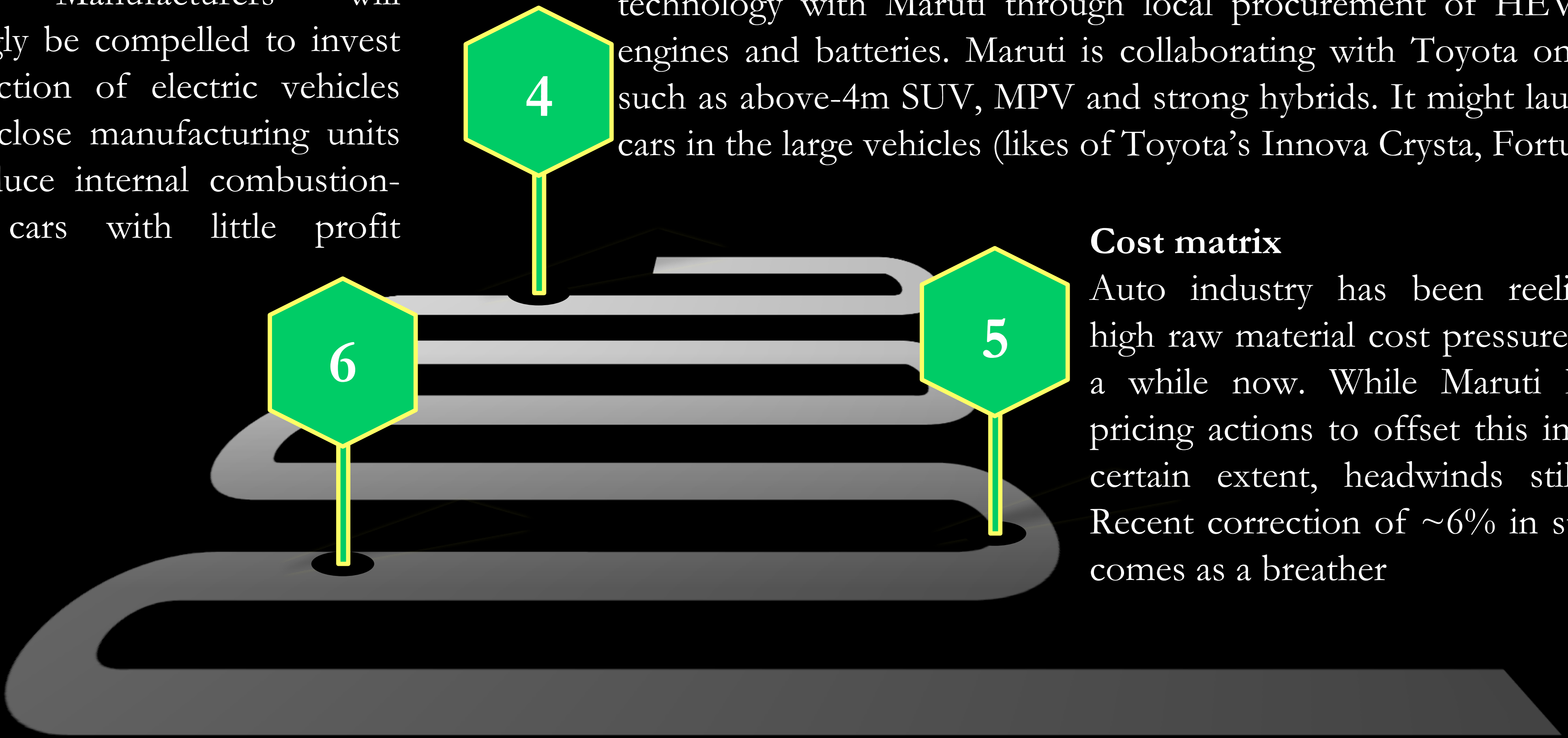
Changing dynamics at play

Ford Motors exit

is indicative of the change that is being demanded of the automotive industry. Manufacturers will increasingly be compelled to invest in production of electric vehicles and will close manufacturing units that produce internal combustion-engined cars with little profit margins

EV play

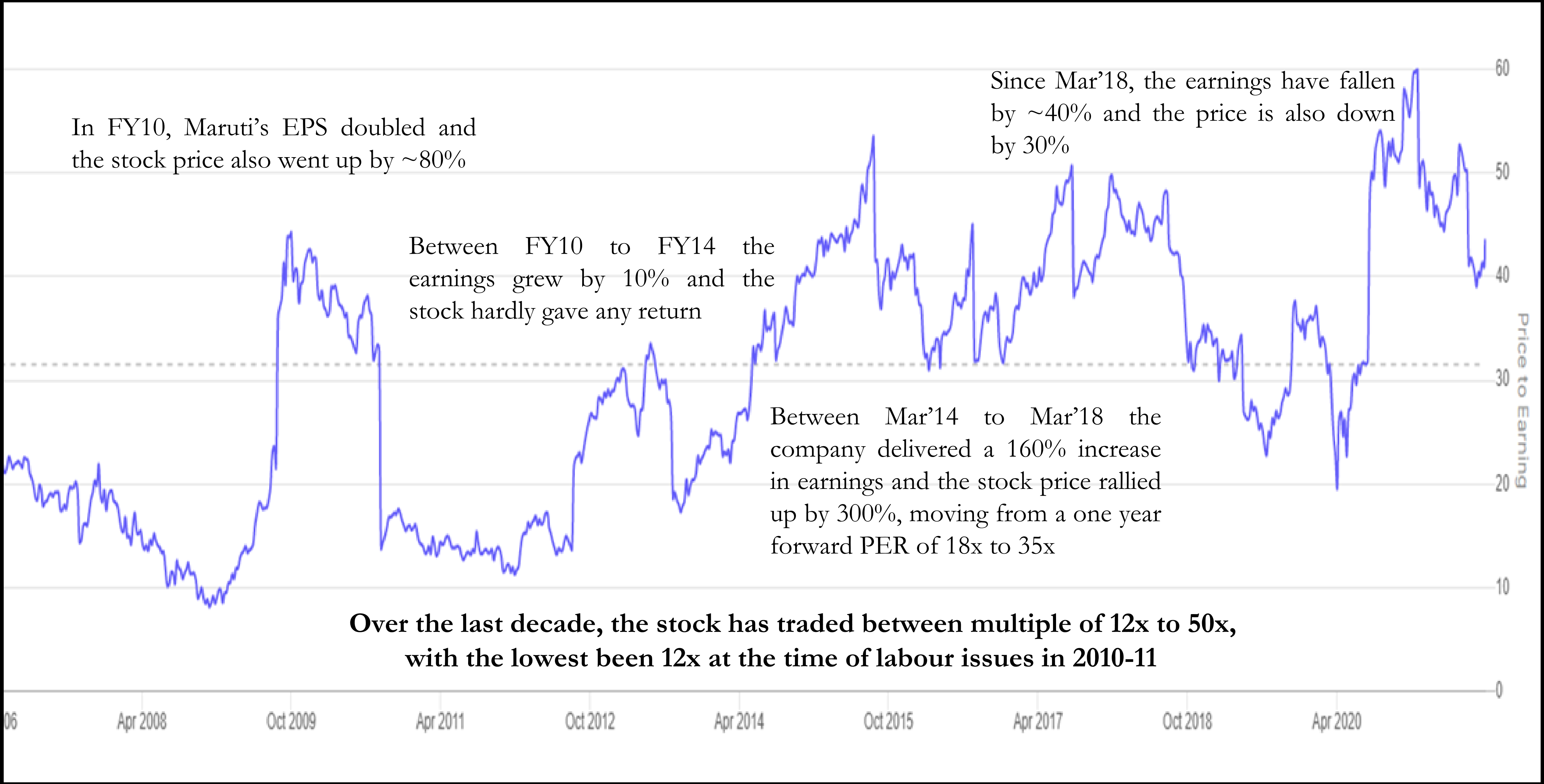
Toyata Global would share the Hybrid Electric Vehicle (HEV) technology with Maruti through local procurement of HEV systems, engines and batteries. Maruti is collaborating with Toyota on products such as above-4m SUV, MPV and strong hybrids. It might launch diesel cars in the large vehicles (likes of Toyota's Innova Crysta, Fortuner)



Cost matrix

Auto industry has been reeling under high raw material cost pressures for over a while now. While Maruti has taken pricing actions to offset this impact to a certain extent, headwinds still remain. Recent correction of ~6% in steel prices comes as a breather

Valuation thesis



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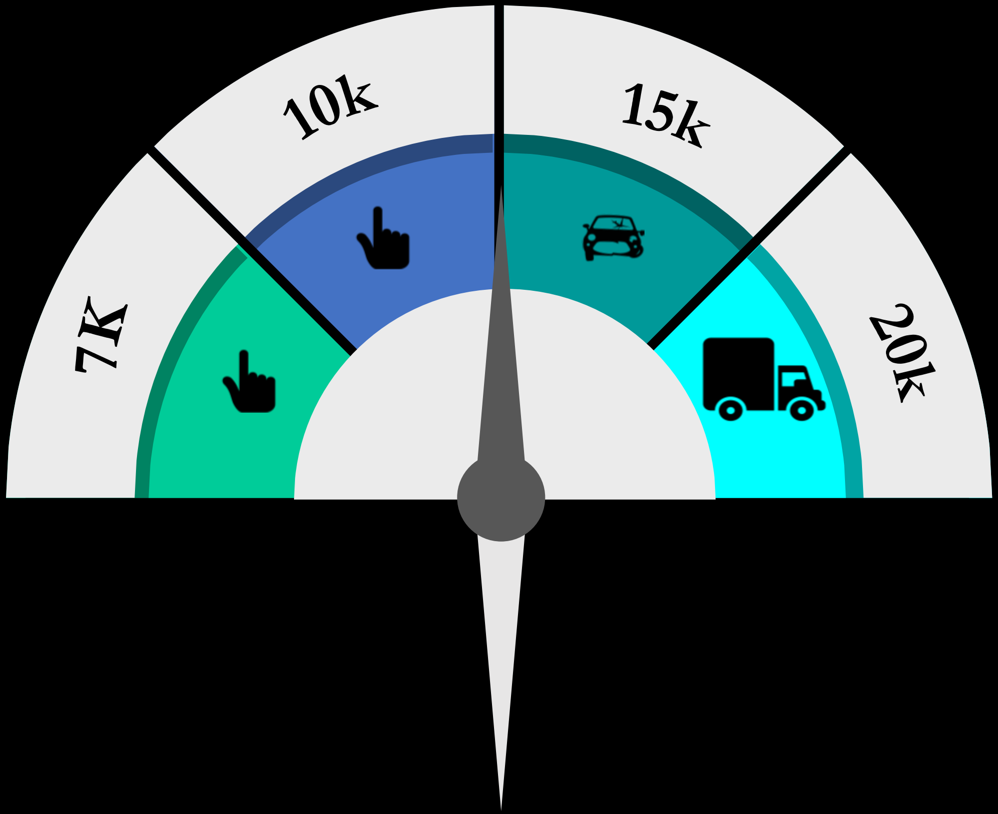
Valuation thesis

Maruti is currently trading at a valuation of 25-30x one year forward PER, on suppressed earning estimates. Given the market leadership, strong balance sheet and a pure domestic PV play, we believe, once the earnings growth is visible, the stock will re-rate to 40-45x PER

We believe Maruti is best placed to tap the pV demand and has strong potential to quadruple its earnings by FY26. And expect the stock to reach 20,000 levels over the next 4 years at over 45x FY26E earnings



The above data clearly signifies that in the upcycle, the stock price moves up due to earnings as well as multiples; And in downcycle, the stock price follows earnings only

Incase the margin increase doesn't happen, yet the stock should deliver basic risk free returns

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Risk to our thesis

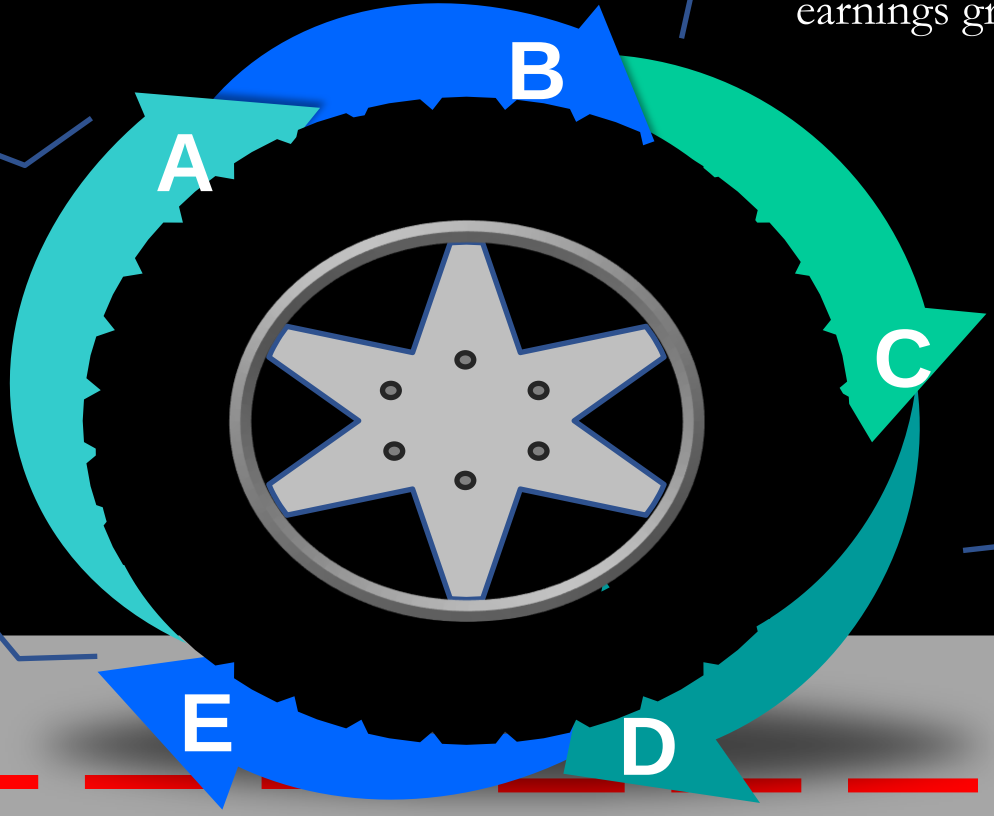
Shortage of semi-con chips continues for a elongated time period affecting production cycle. Similarly, headwinds on raw materials prices could impact margins

Maruti has lost some market share over the past years owing to new players like Kia Motors, MG Motors entering India and expanding the SUV space. If this continues and Maruti is not able to protect its share, the earnings growth could witness a downgrade

Continued WFH would impact passenger vehicles demand – new as well as replacement

Delay in launching new products/variants could impact market competitiveness and hence, market share and profitability

Increased cost of car acquisition (higher road tax, price hikes by OEM, increasing fuel costs, etc. could impact purchasing decisions



Product Portfolio

Maruti Suzuki, a subsidiary of Suzuki Motor Corporation of Japan, is India's largest passenger car company, accounting for over 45% of the domestic car market. The company is now a rare play on the premiumization trend as well as a pull-back in the entry-level car segment in India in the next 2-3 years. It offers 14 brands ranging from Rs260,000 to Rs1300,000 and spanning across the car, UV and MPV segments. WagonR, Swift, DZire, Baleno, Brezza and Ciaz are the most popular models and dominate the market in their respective segments.

NEXA

BALENO

CIAZ

MARUTI SUZUKI ARENA

DZIRE

VITARA BREZZA

WAGON-R

ALTO

Product Portfolio

COMMERCIAL

SUPER CARRY

EECO CARGO

XL6

S-CROSS

IGNIS

ERTIGA

SWIFT

S-PRESSO

CELERIOX

CELERIO

EECO

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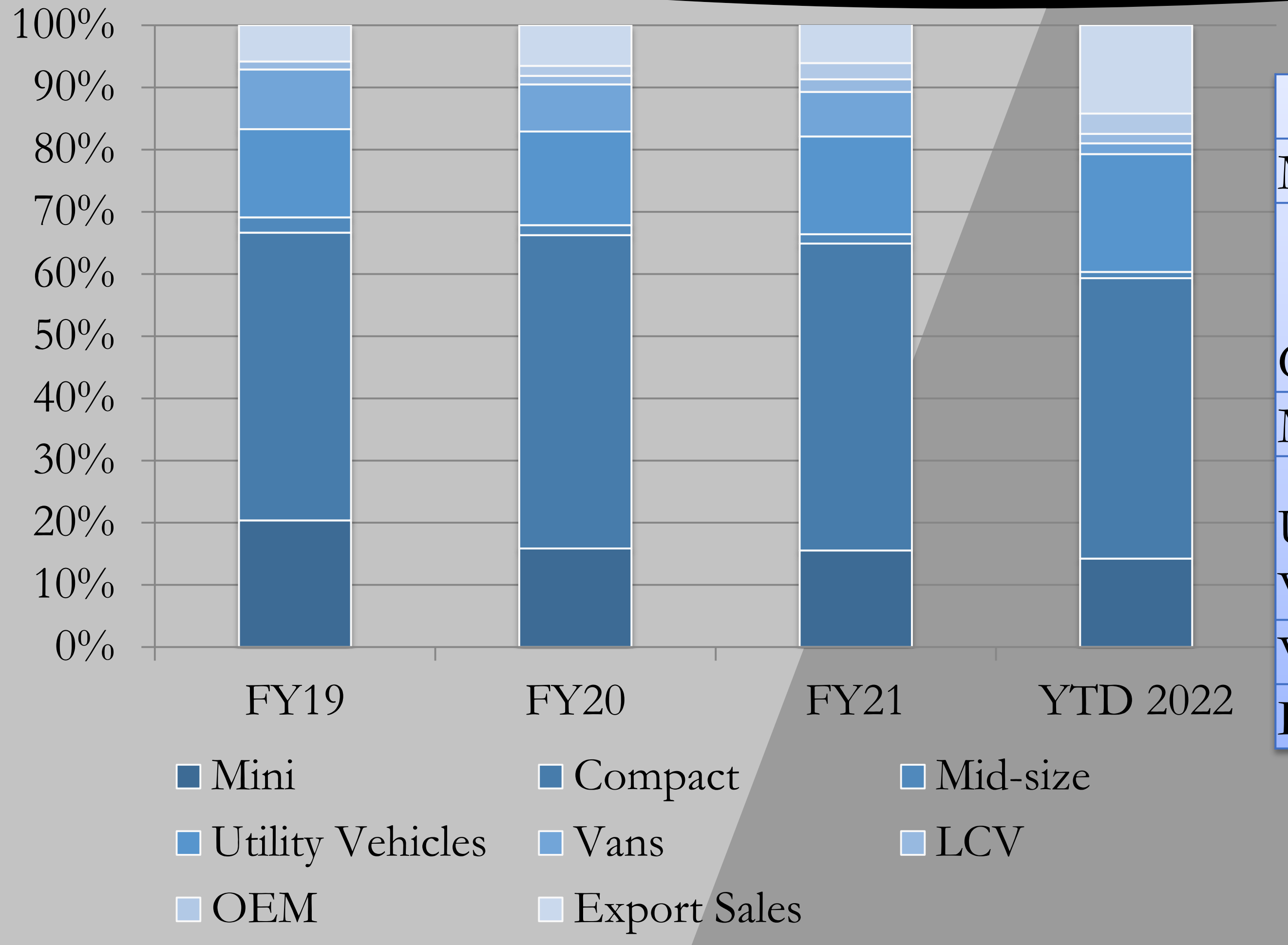
Products & segments



Segment	Model
Mini	Alto, S Presso
Compact	WagonR, Swift, Celerio, Ignis, Baleno, Dzire, Tour S
Mid-size	Ciaz
Utility Vehicles	Gypsy, Ertiga, S-Cross, VitaraBrezza, XL6
Vans	Eeco
LCV	Super Carry

Monthly Car Sales

Month	Aug-19	Aug-20	July-20	Aug-21	2yrs CAGR (%)	YoY Growth(%)	MoM Growth(%)
Mini	10123	19709	19685	20461	42.2	3.8	3.9
Compact	54274	61956	70268	45577	-8.4	-26.4	-35.1
Mid-size	1596	1223	1450	2146	16.0	75.5	48.0
Passengers Cars	**65993**	**82888**	**91403**	**68184**	**1.6**	**-17.7**	**-25.4**
Utility Vehicles	18522	21030	32272	24337	14.6	15.7	-24.6
Vans	8658	9115	10057	10666	11.0	17.0	6.1
Total Domestic Passenger Vehicle	**93173**	**113033**	**133732**	**103187**	**5.2**	**-8.7**	**-22.8**
LCV	1555	2292	2768	2588	29.0	12.9	-6.5
Total Domestic sales (PV+LCV)	**94728**	**115325**	**136500**	**105775**	**5.7**	**-8.3**	**-22.5**
OEM	2333	1379	4738	4305	35.8	212.2	-9.1
Total domestic sales	**97061**	**116704**	**141238**	**110080**	**6.5**	**-5.7**	**-22.1**
Export Sales	9352	7920	21224	20619	48.5	160.3	-2.9
Total Sales	**106413**	**124624**	**162462**	**130699**	**10.8**	**4.9**	**-19.6**

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Financials

Income Statement (Rs. millions)				
Particulars	**FY18**	**FY19**	**FY20**	**FY21**
Revenue from operations	8,19,944	8,60,203	7,56,106	7,03,325
Excise duty	22,317	0	0	0
Net revenue from operations	**7,97,627**	**8,60,203**	**7,56,106**	**7,03,325**
Total operating expenses	6,77,012	7,50,210	6,83,080	6,49,872
EBITDA	**1,20,615**	**1,09,993**	**73,026**	**53,453**
Depreciation and amortization	27,579	30,189	35,257	30,115
EBIT	93,036	79,804	37,769	23,338
Finance cost	3,457	758	1,329	1,008
Other income	20,455	25,610	34,208	29,464
Profit before tax	**1,10,034**	**1,04,656**	**70,648**	**51,794**
Tax expenses	32,816	29,650	14,142	9,297
Profit for the period	**77,218**	**75,006**	**56,506**	**42,497**

Balance Sheet (Rs. millions)				
Particulars	**FY18**	**FY19**	**FY20**	**FY21**
Equity share capital	1,510	1,510	1,510	1,510
Other equity	4,16,063	4,59,905	4,82,860	5,12,158
Net worth	4,17,573	4,61,415	4,84,370	5,13,668
Borrowings	1,108	1,496	1,063	4,888
Non-current liabilities	21,707	26,400	28,203	25,939
Current Liabilities	1,53,313	1,40,007	1,11,885	1,56,179
Total liabilities & equity	**5,93,701**	**6,29,318**	**6,25,521**	**7,00,674**
Fixed assets	1,54,849	1,70,079	1,71,186	1,64,468
Investments	3,52,902	3,65,150	3,64,676	4,17,867
Other non-current assets	18,909	20,928	17,573	17,229
Inventories	31,608	33,257	32,149	30,500
Cash and bank balances	711	1,789	211	30,364
Trade receivables	14,618	23,104	19,749	12,766
Other current assets	20,104	15,011	19,977	27,480
Total assets	**5,93,701**	**6,29,318**	**6,25,521**	**7,00,674**

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senora@senoraadvisors.com
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