

**HOLD**

TP: Rs 8,000 | ▲ 12%

**MARUTI SUZUKI**

| Automobiles

| 28 July 2021

## Weak Q1, volume outlook healthy; cut to HOLD on limited upside

- MSIL's Q1 revenue fell 26% QoQ while lower gross margin and higher staff cost capped EBITDA margin at 4.6%. Adj. PAT declined 62% QoQ
- We expect healthy dispatches driven by low inventory levels and demand revival, though RM cost inflation remains a concern
- With a 10% stock rally in three months, further upsides look capped – downgrade from BUY to HOLD; Mar'22 TP unchanged at Rs 8,000

Mayur Milak | Nishant Chowhan, CFA  
researchreport@bobcaps.in

**Weak Q1FY22:** MSIL's Q1 revenue fell 26% QoQ to Rs 177.8bn due to a 28% volume drop. ASP grew 3% led by price hikes. Lower gross margin (-90bps QoQ) and higher employee cost (at 6% of sales including a Rs 300mn one-off expense) pulled EBITDA margin down to 4.6% (7.2% est.). Below-expected other income at Rs 5bn (vs. Rs 7.5bn on average in the prior four quarters) further dented profitability, resulting in adj. PAT of Rs 4.4bn (Rs 11.3bn est.) and EPS of Rs 14.6.

**Healthy volume outlook:** Management indicated a healthy sequential uptick in July monthly volumes and expects this traction to continue in the run-up to the festive season – growth will be driven by lower dealer inventory levels of 25-30 days and demand revival in both rural and urban areas. MSIL currently has an order book of ~170k units. We build in strong 27% YoY volume growth in FY22 after a 7% decline in FY21, with a 14% CAGR over FY21-FY24

**RM cost inflation a concern:** Commodity costs were up 3.5% QoQ in Q1FY22 and management expects further inflation in coming months. MSIL had taken limited price hikes in both April and July but would require further increases to fully offset cost inflation. In Q1, product discounts were at Rs 14,000/unit.

**Cut to HOLD:** We maintain our estimates for FY22/FY23 and introduce FY24 projections, modelling for a healthy revenue/EBITDA/PAT CAGR of 18%/27%/29% over FY21-FY24 – this will lead to an estimated ~500bps improvement in ROCE and ROE by FY24. We believe the 10% rally in stock price over the past three months prices in the strong growth prospects and hence cut our rating from BUY to HOLD. Our Mar'22 TP remains at Rs 8,000 based on an FY23E P/E multiple of 30x, which is in line with the stock's 10-year average.

## Key changes

Target	Rating
◀ ▶	▼

Ticker/Price	MSIL IN/Rs 7,165
Market cap	US\$ 29.1bn
Free float	44%
3M ADV	US\$ 56.9mn
52wk high/low	Rs 8,329/Rs 6,119
Promoter/FPI/DII	56%/21%/17%

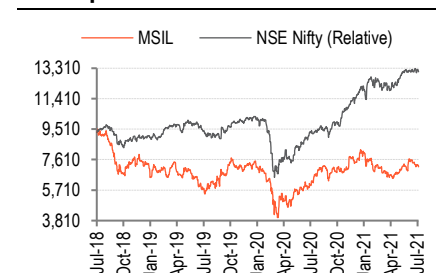
Source: NSE | Price as of 28 Jul 2021

## Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	703,325	937,711	1,043,110
EBITDA (Rs mn)	53,453	81,071	98,841
Adj. net profit (Rs mn)	42,297	66,184	81,184
Adj. EPS (Rs)	140.0	219.1	268.7
Consensus EPS (Rs)	140.0	218.2	290.5
Adj. ROAE (%)	8.4	12.1	13.6
Adj. P/E (x)	51.2	32.7	26.7
EV/EBITDA (x)	40.3	26.4	21.6
Adj. EPS growth (%)	(25.1)	56.5	22.7

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume	353,614	76,599	361.6	492,235	(28.2)	1,457,861	1,563,661	(6.8)
Avg. Realisation per Vehicle	502,545	536,104	(6.3)	488,053	3.0	482,436	483,549	(0.2)
Net Revenues	177,707	41,065	332.7	240,237	(26.0)	703,325	756,106	(7.0)
<b>Total Income (A)</b>	<b>177,707</b>	<b>41,065</b>	<b>332.7</b>	<b>240,237</b>	<b>(26.0)</b>	<b>703,325</b>	<b>756,106</b>	<b>(7.0)</b>
<b>Operating Expenses:</b>								
Raw materials consumed	132,905	29,364	352.6	177,509	(25.1)	508,172	531,566	(4.4)
Employee Expenses	10,643	7,303	45.7	9,003	18.2	34,029	33,839	0.6
Other Expenses	25,948	13,032	99.1	33,814	(23.3)	107,671	117,675	(8.5)
<b>Total Expenditure (B)</b>	<b>169,496</b>	<b>49,699</b>	<b>241.0</b>	<b>220,326</b>	<b>(23.1)</b>	<b>649,872</b>	<b>683,080</b>	<b>(4.9)</b>
<b>EBITDA (A-B)</b>	<b>8,211</b>	<b>(8,634)</b>	<b>NA</b>	<b>19,911</b>	<b>(58.8)</b>	<b>53,453</b>	<b>73,026</b>	<b>(26.8)</b>
Other Income	5,078	13,183	(61.5)	898	465.5	29,464	34,208	(13.9)
Depreciation	7,432	7,833	(5.1)	7,410	0.3	30,315	35,257	(14.0)
EBIT	5,857	(3,284)	(278.3)	13,399	(56.3)	52,602	71,977	(26.9)
Finance Costs	222	173	28.3	324	(31.5)	1,008	1,329	(24.2)
PBT after excep items	5,635	(3,457)	NA	13,075	(56.9)	51,594	70,648	(27.0)
Tax expense	1,227	(963)	NA	1,414	(13.2)	9,297	14,142	(34.3)
<b>Reported PAT</b>	<b>4,408</b>	<b>(2,494)</b>	<b>NA</b>	<b>11,661</b>	<b>(62.2)</b>	<b>42,297</b>	<b>56,506</b>	<b>(25.1)</b>
<b>Adjusted PAT</b>	<b>4,408</b>	<b>(2,494)</b>	<b>NA</b>	<b>11,661</b>	<b>(62.2)</b>	<b>42,297</b>	<b>56,506</b>	<b>(25.1)</b>
<b>Adj EPS (Rs)</b>	<b>14.6</b>	<b>(8.3)</b>	<b>NA</b>	<b>38.6</b>	<b>(62.2)</b>	<b>101.4</b>	<b>148.3</b>	<b>(31.6)</b>

Source: Company, BOBCAPS Research

**Fig 2 – Key parameters**

(%)	Q1FY22	Q1FY21	YoY (bps)	Q4FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	25.2	28.5	(328)	26.1	(90)	27.7	29.7	(195)
EBITDA margin	4.6	(21.0)	2,565	8.3	(367)	7.6	9.7	(206)
EBIT margin	3.3	(8.0)	1,129	5.6	(228)	7.5	9.5	(204)
PBT margin	3.2	(8.4)	1,159	5.4	(227)	7.3	9.3	(201)
Tax rate	21.8	27.9	(608)	10.8	1,096	18.0	20.0	(200)
Adj PAT margin	2.5	(6.1)	855	4.9	(237)	6.0	7.5	(146)

Source: Company, BOBCAPS Research

## Valuation methodology

We maintain our estimates for FY22/FY23 and introduce FY24 projections, modelling for a healthy revenue/EBITDA/PAT CAGR of 18%/27%/29% over FY21-FY24 – this will lead to an estimated ~500bps improvement in ROCE and ROE by FY24.

We believe the 10% rally in stock price over the past three months prices in the strong growth prospects and hence cut our rating from BUY to HOLD. Our Mar'22 TP remains at Rs 8,000 based on an FY23E P/E multiple of 30x, which is in line with the stock's 10-year average.

**Fig 3 – Key assumptions**

Parameter	FY21	FY22E	FY23E	FY24E
Volumes (nos)	1,457,861	1,860,000	2,008,800	2,169,504
ASP (Rs)	482,436	504,146	519,270	529,656
Revenues	703,325	937,711	1,043,110	1,149,090
EBITDA	53,453	81,071	98,841	109,772
OPM (%)	7.6	8.6	9.5	9.6
Adj. PAT	42,297	66,184	81,184	91,809
EPS (Rs)	140	219.1	268.7	303.9

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- below-expected demand, and
- margin pressure from increase in raw material prices.

## Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5	122	60	SELL
Bajaj Auto	BJAUT IN	15	3,819	3,200	SELL
Hero MotoCorp	HMCL IN	7	2,778	2,900	REDUCE
Mahindra & Mahindra	MM IN	12	729	630	SELL
Maruti Suzuki	MSIL IN	29	7,165	8,000	HOLD
TVS Motor	TVSL IN	4	576	480	sell
VST Tillers Tractors	VSTT IN	0	2,001	2,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 28 Jul 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>756,106</b>	<b>703,325</b>	<b>937,711</b>	<b>1,043,110</b>	<b>1,149,090</b>
EBITDA	73,026	53,453	81,071	98,841	109,772
Depreciation	35,257	30,315	33,451	36,951	40,201
EBIT	71,977	52,602	83,530	102,279	115,561
Net interest inc./(exp.)	(1,329)	(1,008)	(800)	(800)	(800)
Other inc./(exp.)	34,208	29,464	35,909	40,389	45,989
Exceptional items	0	0	0	0	0
EBT	70,648	51,594	82,730	101,479	114,761
Income taxes	14,142	9,297	16,546	20,296	22,952
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>56,506</b>	<b>42,297</b>	<b>66,184</b>	<b>81,184</b>	<b>91,809</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>56,506</b>	<b>42,297</b>	<b>66,184</b>	<b>81,184</b>	<b>91,809</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	78,549	101,681	137,450	128,702	141,778
Other current liabilities	19,484	47,208	33,878	41,266	45,299
Provisions	14,274	7,875	7,875	7,875	7,875
Debt funds	22,860	26,629	26,629	26,629	26,629
Other liabilities	0	0	0	0	0
Equity capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	482,860	523,496	565,514	622,531	690,174
Shareholders' fund	484,370	525,006	567,024	624,041	691,684
<b>Total liab. and equities</b>	<b>619,537</b>	<b>708,399</b>	<b>772,856</b>	<b>828,514</b>	<b>913,265</b>
Cash and cash eq.	211	31,981	17,443	16,674	14,208
Accounts receivables	21,270	12,766	18,754	20,862	22,982
Inventories	32,149	30,500	40,322	44,854	49,411
Other current assets	13,547	34,485	34,044	34,782	35,524
Investments	364,676	417,867	479,867	529,867	619,867
Net fixed assets	157,812	152,545	154,094	152,143	141,942
CWIP	13,374	11,923	12,000	13,000	13,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(715)	(715)	(715)	(715)	(715)
Other assets	17,213	17,047	17,047	17,047	17,047
<b>Total assets</b>	<b>619,537</b>	<b>708,399</b>	<b>772,856</b>	<b>828,514</b>	<b>913,265</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>34,644</b>	<b>75,978</b>	<b>69,996</b>	<b>68,208</b>	<b>94,910</b>
Capital expenditures	(36,364)	(23,597)	(35,077)	(36,000)	(30,000)
Change in investments	474	(53,191)	(62,000)	(50,000)	(90,000)
Other investing cash flows	34,208	29,464	35,909	40,389	45,989
<b>Cash flow from investing</b>	<b>(1,682)</b>	<b>(47,324)</b>	<b>(61,168)</b>	<b>(45,611)</b>	<b>(74,011)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	604	3,769	0	0	0
Interest expenses	(1,329)	(1,008)	(800)	(800)	(800)
Dividends paid	(24,166)	(13,594)	(24,166)	(24,166)	(24,166)
Other financing cash flows	(4,925)	0	0	0	0
<b>Cash flow from financing</b>	<b>(29,816)</b>	<b>(10,833)</b>	<b>(24,966)</b>	<b>(24,966)</b>	<b>(24,966)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>3,146</b>	<b>17,821</b>	<b>(16,138)</b>	<b>(2,369)</b>	<b>(4,066)</b>
<b>Closing cash &amp; cash eq.</b>	<b>211</b>	<b>31,981</b>	<b>17,443</b>	<b>16,674</b>	<b>14,208</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	187.1	140.0	219.1	268.7	303.9
Adjusted EPS	187.1	140.0	219.1	268.7	303.9
Dividend per share	80.0	45.0	80.0	80.0	80.0
Book value per share	1,603.5	1,738.0	1,877.1	2,065.8	2,289.7

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	2.8	3.1	2.3	2.0	1.9
EV/EBITDA	29.5	40.3	26.4	21.6	19.6
Adjusted P/E	38.3	51.2	32.7	26.7	23.6
P/BV	4.5	4.1	3.8	3.5	3.1

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	80.0	82.0	80.0	80.0	80.0
Interest burden (PBT/EBIT)	98.2	98.1	99.0	99.2	99.3
EBIT margin (EBIT/Revenue)	9.5	7.5	8.9	9.8	10.1
Asset turnover (Rev./Avg TA)	152.6	132.8	163.8	167.7	167.9
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	11.9	8.4	12.1	13.6	14.0

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(12.1)	(7.0)	33.3	11.2	10.2
EBITDA	(33.6)	(26.8)	51.7	21.9	11.1
Adjusted EPS	(3.1)	(25.1)	56.5	22.7	13.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	9.7	7.6	8.6	9.5	9.6
EBIT margin	9.5	7.5	8.9	9.8	10.1
Adjusted profit margin	7.5	6.0	7.1	7.8	8.0
Adjusted ROAE	11.9	8.4	12.1	13.6	13.3
ROCE	11.3	7.9	11.4	12.9	13.2
<b>Working capital days (days)</b>					
Receivables	11	9	6	7	7
Inventory	22	22	14	15	15
Payables	61	65	64	64	59
<b>Ratios (x)</b>					
Gross asset turnover	0.4	0.5	0.4	0.4	0.4
Current ratio	0.6	0.7	0.6	0.7	0.6
Net interest coverage ratio	(54.2)	(52.2)	(104.4)	(127.8)	(144.5)
Adjusted debt/equity	0.0	0.1	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

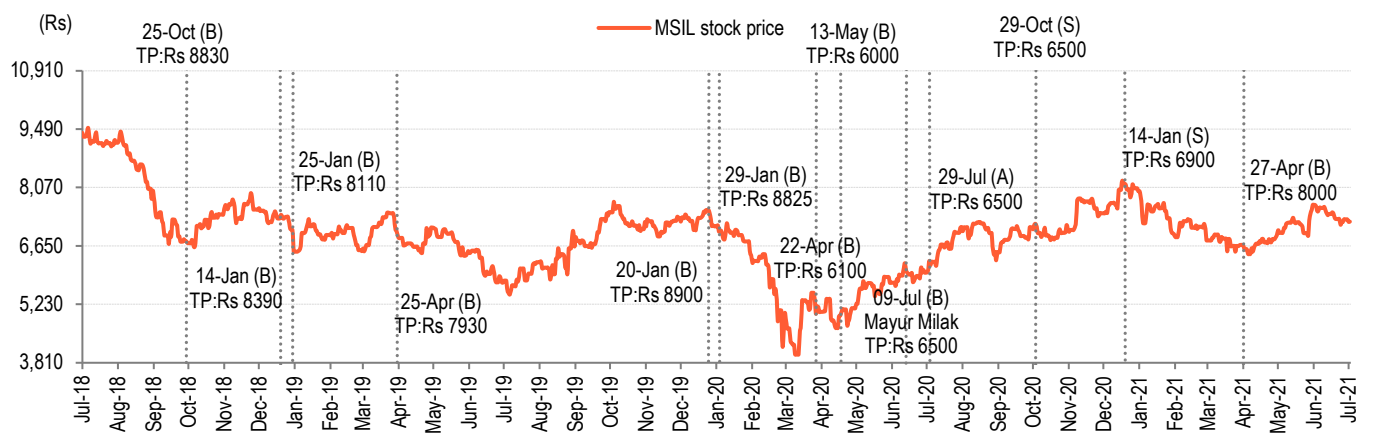
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): MARUTI SUZUKI (MSIL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

### Rating distribution

As of 30 June 2021, out of 95 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 44 have BUY ratings, 7 have HOLD ratings, 17 are rated ADD\*, 4 are rated REDUCE\* and 23 are rated SELL. None of these companies have been investment banking clients in the last 12 months. (\*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation

or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

#### **Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.