

**SELL**

TP: Rs 6,500 | ▼ 9%

**MARUTI SUZUKI**

Automobiles

29 October 2020

## Q2 along expected lines; upside limited – downgrade to SELL

**Maruti (MSIL) reported in-line Q2FY21 earnings of Rs 13.7bn. Revenue missed estimates but above-expected operating efficiency brought earnings back in line. MSIL derives >40% of revenue from rural India. With strong farm sector growth and planned relaunch of diesel variants in H2FY21, we expect a monthly sales run-rate of ~150,000 vehicles in FY22. We estimate a revenue/PAT CAGR of 12%/13% over FY20-FY23 and retain our Sep'21 TP of Rs 6,500 (26x Sep'22E EPS). Post the recent rally, we downgrade the stock to SELL (vs. ADD).**

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**In-line performance:** At Rs 187.4bn (+10% YoY), MSIL's revenue was ~6% lower than our estimate, affected by softer ASP due to an adverse product mix. EBITDA margin at 10.3% was marginally better than projected, leading to in-line EBITDA growth of 20% YoY to Rs 19.3bn. Adj. PAT for Q2 grew 1% YoY to Rs 13.7bn, meeting our expectations.

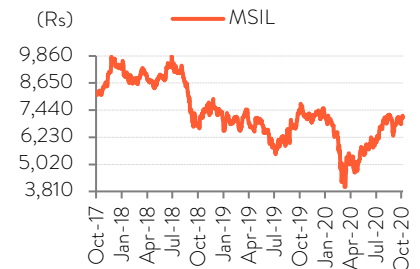
**Key beneficiary of strong rural growth:** Our interactions with various agri-marketplaces ('mandis') in Rajasthan, adjoining Neemuch (Madhya Pradesh), and Uttar Pradesh suggest robust growth (>2x) in annual agricultural produce led by higher cultivation. Since >40% of MSIL's domestic revenue comes from rural India, we believe it will be a direct beneficiary of this strong growth.

**Valuations full; cut to SELL:** With a likely rise in preference for personal mobility, rural pickup and relaunch of diesel variants in H2FY21, we believe MSIL could retrace to a monthly run-rate of ~150,000 vehicle sales in FY22. We thus model for a volume CAGR of ~8% during FY20-FY23. ROCE/ROE are forecast to improve to 13.2%/13.8% in FY23. But after the recent 14% rally in stock price since last 1 month, we find valuations expensive at 30x FY22E EPS – downgrade to SELL from ADD. We continue to value MSIL at 26x one-year forward EPS for a Sep'21 TP of Rs 6,500.

Ticker/Price	MSIL IN/Rs 7,118
Market cap	US\$ 28.9bn
Shares o/s	302mn
3M ADV	US\$ 109.2mn
52wk high/low	Rs 7,754/Rs 4,001
Promoter/FPI/DII	56%/21%/17%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	860,203	756,106	680,030	945,676	1,046,863
EBITDA (Rs mn)	109,993	73,026	61,502	98,882	111,649
Adj. net profit (Rs mn)	91,700	56,506	42,008	71,058	81,533
Adj. EPS (Rs)	193.0	187.1	139.1	235.2	269.9
Adj. EPS growth (%)	(8.9)	(3.1)	(25.7)	69.2	14.7
Adj. ROAE (%)	13.3	11.9	8.5	13.4	14.0
Adj. P/E (x)	36.9	38.1	51.2	30.3	26.4
EV/EBITDA (x)	19.5	29.3	34.8	21.7	19.2

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Volume	393,130	338,317	16.2	76,599	413.2	469,729	741,275	(36.6)
Avg. Realisation per Vehicle	476,802	502,053	(5.0)	536,104	(11.1)	486,472	495,162	(1.8)
Net Revenues	187,445	169,853	10.4	41,065	356.5	228,510	367,051	(37.7)
<b>Total Income (A)</b>	<b>187,445</b>	<b>169,853</b>	<b>10.4</b>	<b>41,065</b>	<b>356.5</b>	<b>228,510</b>	<b>367,051</b>	<b>(37.7)</b>
<b>Operating Expenses:</b>								
Raw materials consumed	131,143	120,994	8.4	29,364	346.6	160,507	261,907	(38.7)
Employee Expenses	8,268	8,384	(1.4)	7,303	13.2	15,571	16,975	(8.3)
Other Expenses	28,698	24,412	17.6	13,032	120.2	41,730	51,628	(19.2)
<b>Total Expenditure (B)</b>	<b>168,109</b>	<b>153,790</b>	<b>9.3</b>	<b>49,699</b>	<b>238.3</b>	<b>217,808</b>	<b>330,510</b>	<b>(34.1)</b>
<b>EBITDA (A-B)</b>	<b>19,336</b>	<b>16,063</b>	<b>20.4</b>	<b>(8,634)</b>	<b>(324.0)</b>	<b>10,702</b>	<b>36,541</b>	<b>(70.7)</b>
Other Income	6,025	9,200	(34.5)	13,183	(54.3)	19,208	17,564	9.4
Depreciation	7,659	9,261	(17.3)	7,833	(2.2)	15,492	18,447	(16.0)
EBIT	17,702	16,002	10.6	(3,284)	NA	14,418	35,658	(59.6)
Finance Costs	224	282	(20.6)	173	29.5	397	829	(52.1)
PBT after excep items	17,478	15,720	11.2	(3,457)	NA	14,021	34,829	(59.7)
Tax expense	3,762	2,134	76.3	(963)	NA	2,799	6,888	(59.4)
Reported PAT	13,716	13,586	1.0	(2,494)	NA	11,222	27,941	(59.8)
Adjusted PAT	13,716	13,586	1.0	(2,494)	NA	11,222	27,941	(59.8)
Adj EPS (Rs)	45.4	45.0	1.0	(8.3)	NA	37.2	92.5	(59.8)

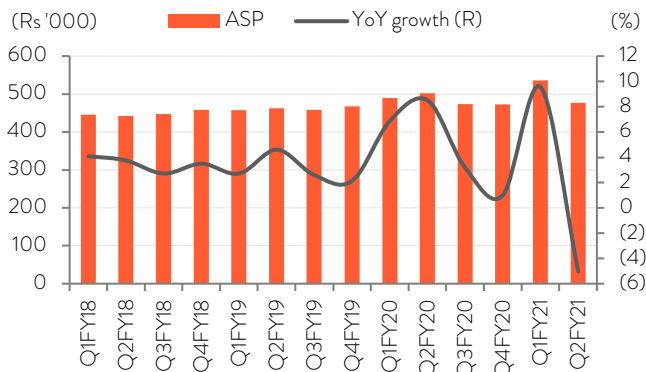
Source: Company, BOBCAPS Research

**FIG 2 – KEY PARAMETERS**

(%)	Q2FY21	Q2FY20	YoY (bps)	Q1FY21	QoQ (bps)	H1FY21	H1FY20	YoY (bps)
Gross Margin	30.0	28.8	127	28.5	154	29.8	28.6	111
EBITDA Margin	10.3	9.5	86	(21.0)	3,134	4.7	10.0	(527)
EBIT Margin	9.4	9.4	2	(8.0)	1,744	6.3	9.7	(341)
PBT Margin	9.3	9.3	7	(8.4)	1,774	6.1	9.5	(335)
Tax Rate	21.5	13.6	795	NA	NA	20.0	19.8	19
Adj PAT Margin	7.3	8.0	(68)	(6.1)	1,339	4.9	7.6	(270)

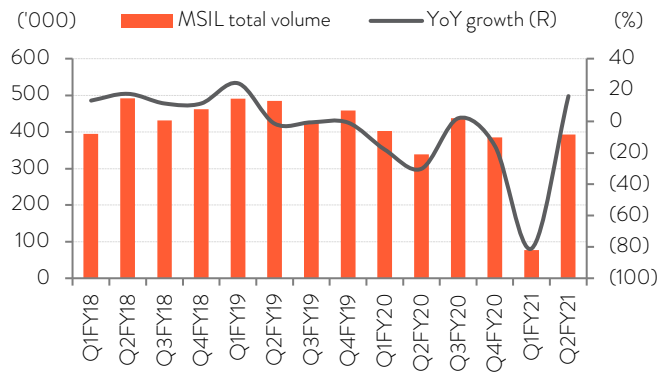
Source: Company, BOBCAPS Research

**FIG 3 – AVERAGE SELLING PRICE (ASP)**



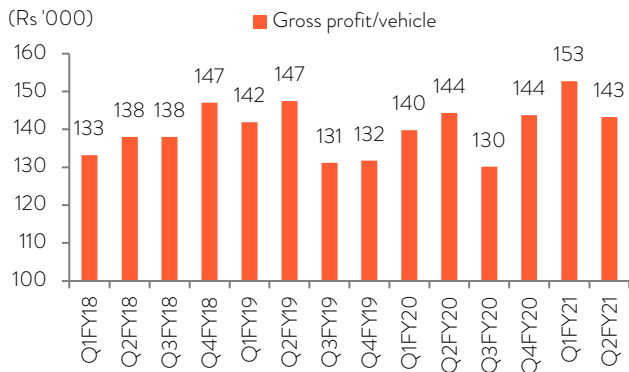
Source: Company, BOBCAPS Research

**FIG 4 – TOTAL VOLUMES**



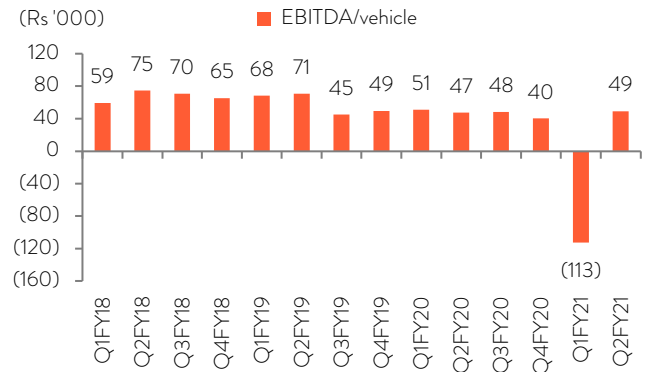
Source: Company, BOBCAPS Research

**FIG 5 – GROSS PROFIT/VEHICLE**



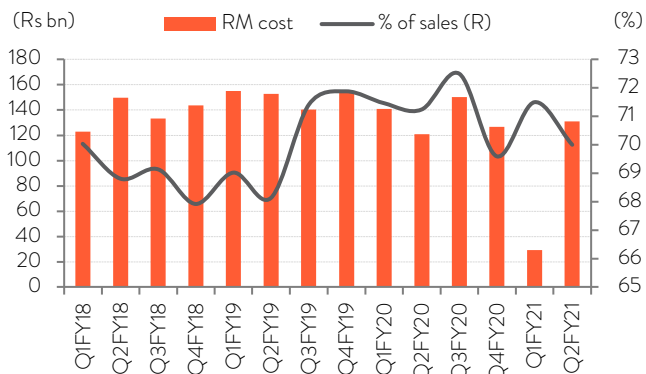
Source: Company, BOBCAPS Research

**FIG 6 – EBITDA/VEHICLE**



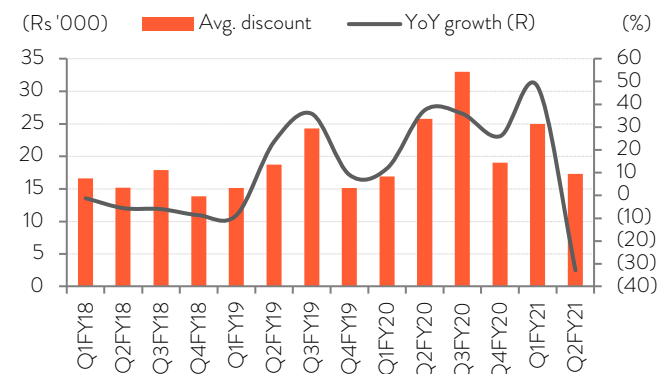
Source: Company, BOBCAPS Research

**FIG 7 – RM COST/SALES TREND**

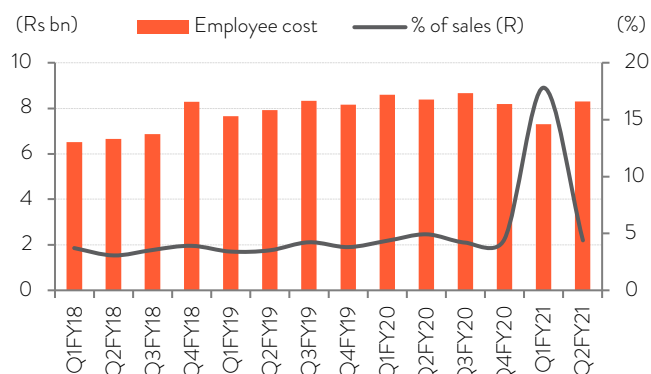


Source: Company, SIAM, ET Autolytics, BOBCAPS Research

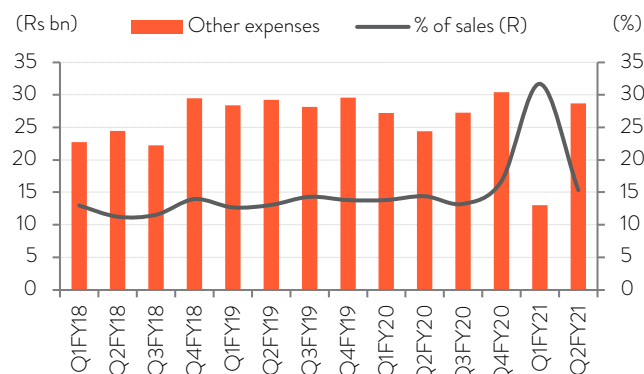
**FIG 8 – AVERAGE DISCOUNT/VEHICLE**



Source: Company, BOBCAPS Research

**FIG 9 – EMPLOYEE COST/SALES TREND**

Source: Company, BOBCAPS Research

**FIG 10 – OTHER EXPENSES/SALES TREND**

Source: Company, BOBCAPS Research

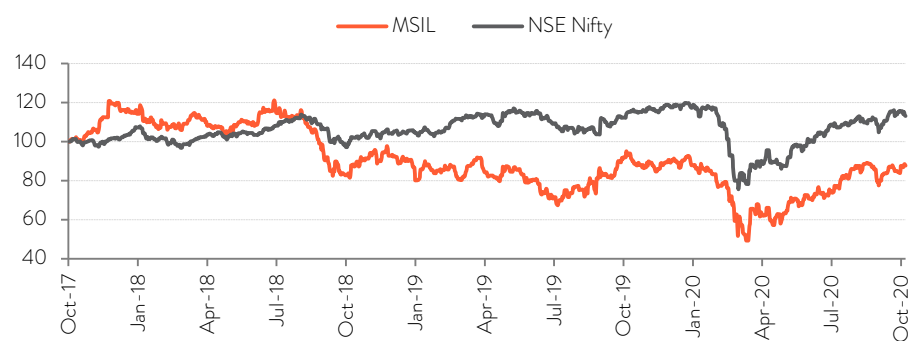
### Earnings call highlights

- Per management, the demand environment appears to be improving led by pent-up demand and is expected to remain healthy till December at least. In Q2FY21, MSIL's retail sales increased 4% YoY to 320k units led by 10% growth in sales to rural regions.
- Retail sales during the Navratri/Dussehra festive period stood at 96,700 (vs. 76k same time last year) and further bookings of 85k have been received.
- The share of first-time buyers has risen to ~48% (vs. 43% last year), indicative of the fact that people are preferring personal mobility options due to Covid-19. Thus, sale of small cars has increased.
- According to MSIL, demand for pre-owned cars has also risen.
- In Q2, discounts averaged at Rs 17.3k per vehicle.
- Financing penetration was at 80%, in line with year-ago levels.
- Vehicles sourced from the Gujarat plant totalled 96,835 units during the quarter.
- Inventory levels were at 120k units at the start of Oct'20.
- Diesel vehicles contributed 17% of industry sales in Q2.

## Valuation methodology

Given expectations of a rising preference for personal mobility, rural pickup and relaunch of diesel variants in H2FY21, we believe MSIL could retrace to a monthly run-rate of ~150,000 vehicle sales in FY22. We thus model for a volume CAGR of ~8% during FY20-FY23. ROCE and ROE are projected to improve to 13.2% and 13.9% respectively in FY23. But after the recent 14% rally in stock price since last 1 month, we find valuations expensive at 30x FY22E EPS, leading to our rating downgrade from ADD to SELL. We continue to value MSIL at 26x one-year forward EPS for a Sep'21 TP of Rs 6,500.

**FIG 11 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- Above-expected demand can positively impact MSIL's performance.
- Softening in prices of raw material can elevate operating margins.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>860,203</b>	<b>756,106</b>	<b>680,030</b>	<b>945,676</b>	<b>1,046,863</b>
EBITDA	109,993	73,026	61,502	98,882	111,649
Depreciation	30,189	35,257	38,718	42,716	47,328
EBIT	105,414	71,977	57,360	96,097	110,102
Net interest income/(expenses)	(758)	(1,329)	(1,200)	(1,100)	(1,100)
Other income/(expenses)	25,610	34,208	34,576	39,931	45,781
Exceptional items	(16,694)	0	0	0	0
EBT	104,656	70,648	56,160	94,997	109,002
Income taxes	29,650	14,142	14,152	23,939	27,468
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>75,006</b>	<b>56,506</b>	<b>42,008</b>	<b>71,058</b>	<b>81,533</b>
Adjustments	16,694	0	0	0	0
<b>Adjusted net profit</b>	<b>91,700</b>	<b>56,506</b>	<b>42,008</b>	<b>71,058</b>	<b>81,533</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	102,741	78,549	77,936	107,853	97,007
Other current liabilities	24,293	19,484	33,399	44,570	43,275
Provisions	12,973	14,274	7,312	7,312	7,312
Debt funds	22,256	22,860	22,860	22,860	22,860
Other liabilities	0	0	0	0	0
Equity capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	459,905	482,860	506,743	553,635	611,003
Shareholders' fund	461,415	484,370	508,253	555,145	612,513
<b>Total liabilities and equities</b>	<b>623,678</b>	<b>619,537</b>	<b>649,760</b>	<b>737,740</b>	<b>782,967</b>
Cash and cash eq.	1,789	211	4,067	1,429	2,333
Accounts receivables	23,104	21,270	22,441	28,370	28,265
Inventories	33,257	32,149	30,601	37,827	41,875
Other current assets	15,011	13,547	13,383	14,563	15,271
Investments	365,150	364,676	403,676	483,676	533,676
Net fixed assets	154,078	157,812	144,094	141,378	129,049
CWIP	16,001	13,374	15,000	14,000	16,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(5,640)	(715)	(715)	(715)	(715)
Other assets	20,928	17,213	17,213	17,213	17,213
<b>Total assets</b>	<b>623,678</b>	<b>619,537</b>	<b>649,760</b>	<b>737,740</b>	<b>782,967</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	121,889	91,763	80,726	113,774	128,862
Interest expenses	(758)	(1,329)	(1,200)	(1,100)	(1,100)
Non-cash adjustments	(25,610)	(34,208)	(34,576)	(39,931)	(45,781)
Changes in working capital	(20,367)	(19,579)	6,880	26,753	(16,792)
Other operating cash flows	(6,832)	(2,003)	0	0	0
<b>Cash flow from operations</b>	<b>68,322</b>	<b>34,644</b>	<b>51,831</b>	<b>99,497</b>	<b>65,189</b>
Capital expenditures	(45,419)	(36,364)	(26,626)	(39,000)	(37,000)
Change in investments	(12,248)	474	(39,000)	(80,000)	(50,000)
Other investing cash flows	25,610	34,208	34,576	39,931	45,781
<b>Cash flow from investing</b>	<b>(32,057)</b>	<b>(1,682)</b>	<b>(31,050)</b>	<b>(79,069)</b>	<b>(41,219)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	5,030	604	0	0	0
Interest expenses	(758)	(1,329)	(1,200)	(1,100)	(1,100)
Dividends paid	(24,166)	(24,166)	(18,125)	(24,166)	(24,166)
Other financing cash flows	51	(4,925)	0	0	0
<b>Cash flow from financing</b>	<b>(19,843)</b>	<b>(29,816)</b>	<b>(19,325)</b>	<b>(25,266)</b>	<b>(25,266)</b>
<b>Changes in cash and cash eq.</b>	<b>16,422</b>	<b>3,146</b>	<b>1,456</b>	<b>(4,839)</b>	<b>(1,296)</b>
<b>Closing cash and cash eq.</b>	<b>1,789</b>	<b>211</b>	<b>4,067</b>	<b>1,429</b>	<b>2,333</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	193.0	187.1	139.1	235.2	269.9
Adjusted EPS	193.0	187.1	139.1	235.2	269.9
Dividend per share	80.0	80.0	60.0	80.0	80.0
Book value per share	1,527.5	1,603.5	1,682.5	1,837.7	2,027.7

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.5	2.8	3.1	2.3	2.1
EV/EBITDA	19.5	29.3	34.8	21.7	19.2
Adjusted P/E	36.9	38.1	51.2	30.3	26.4
P/BV	4.7	4.4	4.2	3.9	3.5

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	55.7	80.0	74.8	74.8	74.8
Interest burden (PBT/EBIT)	99.3	98.2	97.9	98.9	99.0
EBIT margin (EBIT/Revenue)	12.3	9.5	8.4	10.2	10.5
Asset turnover (Revenue/Avg TA)	187.3	152.6	131.0	170.5	172.6
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	13.3	11.9	8.5	13.4	14.0

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	7.8	(12.1)	(10.1)	39.1	10.7
EBITDA	(8.8)	(33.6)	(15.8)	60.8	12.9
Adjusted EPS	(8.9)	(3.1)	(25.7)	69.2	14.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.8	9.7	9.0	10.5	10.7
EBIT margin	12.3	9.5	8.4	10.2	10.5
Adjusted profit margin	10.7	7.5	6.2	7.5	7.8
Adjusted ROAE	13.3	11.9	8.5	13.4	14.0
ROCE	16.0	11.3	8.1	12.7	13.3
<b>Working capital days (days)</b>					
Receivables	8	11	12	10	10
Inventory	20	22	24	13	14
Payables	65	61	59	50	50
<b>Ratios (x)</b>					
Gross asset turnover	0.3	0.4	0.5	0.4	0.4
Current ratio	0.5	0.6	0.6	0.5	0.6
Net interest coverage ratio	(139.1)	(54.2)	(47.8)	(87.4)	(100.1)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

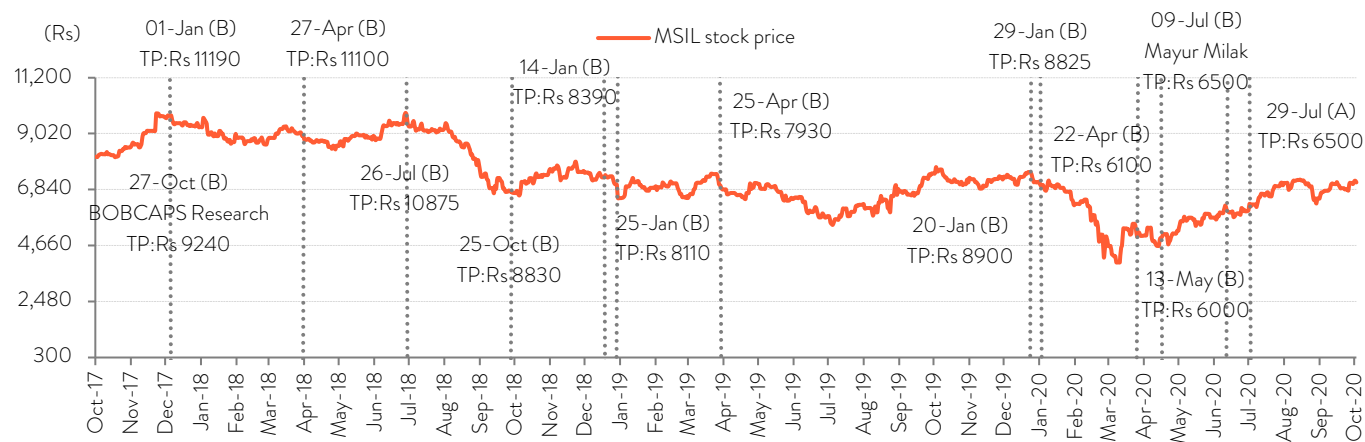
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): MARUTI SUZUKI (MSIL IN)



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

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