

BUY

TP: Rs 8,825 | ▲ 26%

MARUTI SUZUKI

Automobiles

29 January 2020

Operational miss largely led by transient impact

Maruti's (MSIL) Q3FY20 operating performance missed estimates, largely due to the exaggerated impact of discounts and higher fixed cost appropriation. Both factors had >200bps QoQ margin impact and are likely to reverse in Q4. Management remains confident of an industry volume shift in favour of petrol models post BS-VI (from ~70% to 80-85%). We expect a cyclical demand recovery from FY21 to revive MSIL's margins from current 7-year lows. We pare FY20-FY22 EPS by 1-2% and revise our Mar'21 TP to Rs 8,825 (vs. Rs 8,900).

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Operating performance below: MSIL's Q3 topline (+5% YoY) missed estimates due to a ~6% QoQ ASP decline led by higher discounts and a lower diesel mix. With retail sales above wholesale volumes (~87k), and the latter being higher than production (~60k), gross margins were hit by a sharp rise in discount/vehicle (~140bps impact) and higher fixed cost appropriation (~100bps). While these factors do occur every year, Q3FY20 saw a magnified impact due to BS-VI inventory destocking. Modest topline growth and 130bps QoQ gross margin compression drove a 10% miss on EBITDA (Rs 21bn, +6% YoY).

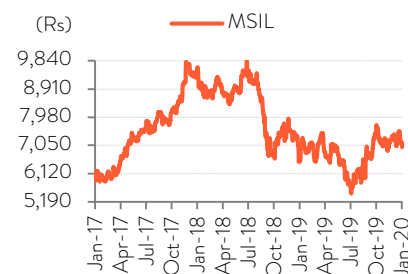
Positive volume outlook on cyclical recovery and falling diesel mix: Higher farm incomes from a healthy winter-crop should aid rural demand growth. In addition, an anticipated pickup in economic growth, low base effect and MSIL's lean inventory pipeline point to an improving volume outlook from FY21. Notwithstanding aggressive pricing by Hyundai, MSIL highlighted that diesel launches by other OEMs do reflect the large BS-VI linked cost rise, which should result in the petrol mix rising from ~70% currently to 80-85%.

Maintain BUY: With anticipated demand recovery and drivers for margin improvement (details in our report: [Mixed signals – prefer PVs, two-wheelers](#)), we expect MSIL to log a strong earnings CAGR of 26% over FY20-FY22.

Ticker/Price	MSIL IN/Rs 6,997
Market cap	US\$ 29.6bn
Shares o/s	302mn
3M ADV	US\$ 83.6mn
52wk high/low	Rs 7,759/Rs 5,446
Promoter/FPI/DII	56%/23%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	797,627	860,203	796,237	885,746	988,195
EBITDA (Rs mn)	120,615	110,473	83,289	105,985	131,140
Adj. net profit (Rs mn)	79,002	75,342	62,511	79,356	98,701
Adj. EPS (Rs)	261.6	249.5	207.0	262.8	326.8
Adj. EPS growth (%)	7.5	(4.6)	(17.0)	26.9	24.4
Adj. ROAE (%)	19.8	16.9	12.8	15.0	17.0
Adj. P/E (x)	26.7	28.0	33.8	26.6	21.4
EV/EBITDA (x)	15.6	16.4	21.2	16.5	13.0

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

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net Revenues	207,068	196,683	5.3	169,853	21.9	574,119	645,609	(11.1)
Raw Materials	150,130	140,437	6.9	120,994	24.1	412,037	448,306	(8.1)
% of Net Sales	72.5	71.4	-	71.2	-	71.8	69.4	-
Staff cost	8,670	8,331	4.1	8,384	3.4	25,645	23,900	7.3
% of Net Sales	4.2	4.2	-	4.9	-	4.5	3.7	-
Other Exp	27,247	28,124	(3.1)	24,412	11.6	78,875	85,788	(8.1)
% of Net Sales	13.2	14.3	-	14.4	-	13.7	13.3	-
Total Expenditure	186,047	176,892	5.2	153,790	21.0	516,557	557,994	(7.4)
EBITDA	21,021	19,791	6.2	16,063	30.9	57,562	87,615	(34.3)
EBITDA margin (%)	10.2	10.1	-	9.5	-	10.0	13.6	-
Depreciation	8,580	7,677	11.8	9,261	(7.4)	27,027	22,087	22.4
EBIT	12,441	12,114	2.7	6,802	82.9	30,535	65,528	(53.4)
Interest Expenses	217	206	5.3	282	(23.0)	1,046	670	56.1
Non-operating income	7,840	9,173	(14.5)	9,200	(14.8)	25,404	17,157	48.1
Extraordinary Expenses	0	480	-	0	-	0	480	-
PBT	20,064	20,601	(2.6)	15,720	27.6	54,893	81,535	(32.7)
Tax-Total	4,416	5,708	(22.6)	2,134	106.9	11,304	24,485	(53.8)
Tax Rate (%) - Total	22.0	27.7	(20.6)	13.6		20.6	30.0	(31.4)
Reported PAT	15,648	14,893	5.1	13,586	15.2	43,589	57,050	(23.6)
Adj. PAT	15,648	15,229	2.8	13,586	15.2	43,589	57,386	(24.0)
PAT margin	7.6	7.7	-	8.0	-	7.6	8.9	-

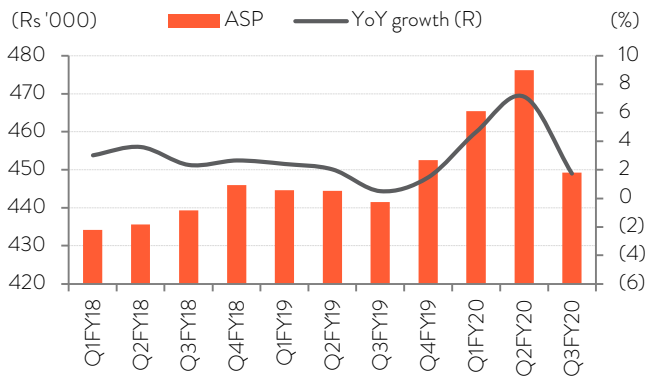
Source: Company, BOBCAPS Research

FIG 2 – PER UNIT PARAMETERS

Per vehicle metrics (Rs)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Volume (nos)	437,361	428,643	2.0	338,517	29.2	1,178,472	1,403,970	(16.1)
Net realisation/Vehicle	473,449	458,850	3.2	501,756	(5.6)	487,172	459,845	5.9
Material cost /Vehicle	343,263	327,632	4.8	357,424	(4.0)	349,637	319,313	9.5
Gross profit/Vehicle	130,185	131,219	(0.8)	144,332	(9.8)	137,536	140,532	(2.1)
Employee cost/Vehicle	19,823	19,436	2.0	24,767	(20.0)	21,761	17,023	27.8
Other expenses/Vehicle	62,299	65,612	(5.0)	72,115	(13.6)	66,930	61,104	9.5
EBITDA/Vehicle	48,063	46,171	4.1	47,451	1.3	48,845	62,405	(21.7)
Net Profit/Vehicle	35,778	35,528	0.7	40,134	(10.9)	36,988	40,874	(9.5)

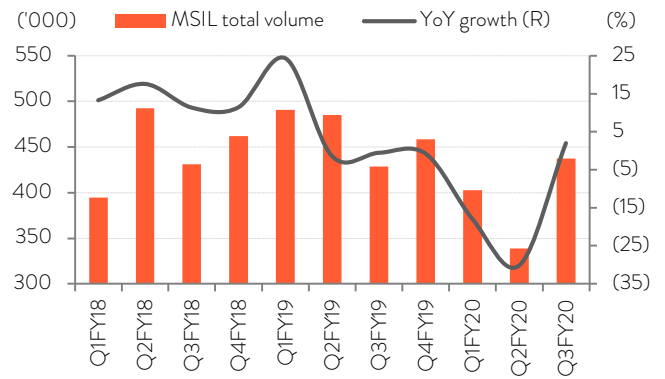
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE (ASP)



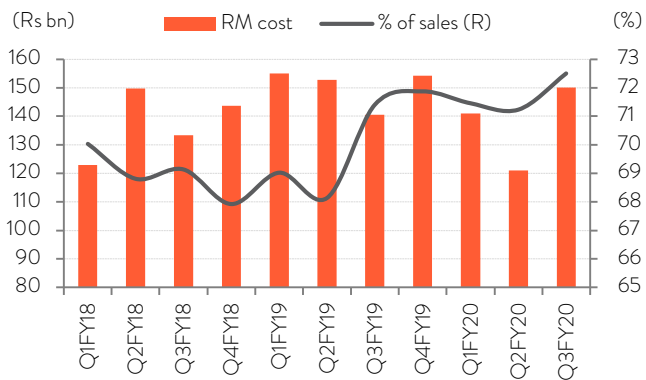
Source: Company, BOBCAPS Research

FIG 4 – TOTAL VOLUMES



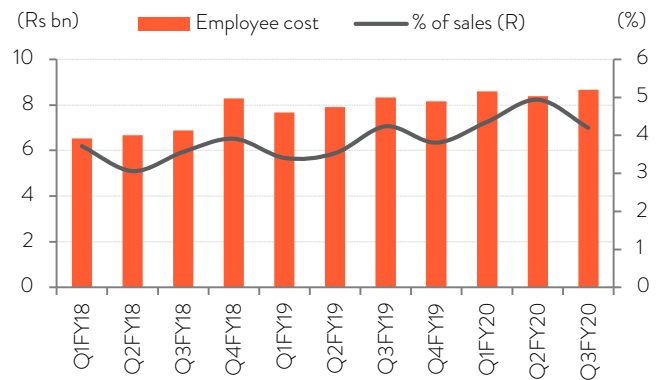
Source: Company, BOBCAPS Research

FIG 5 – RM COST/SALES TREND



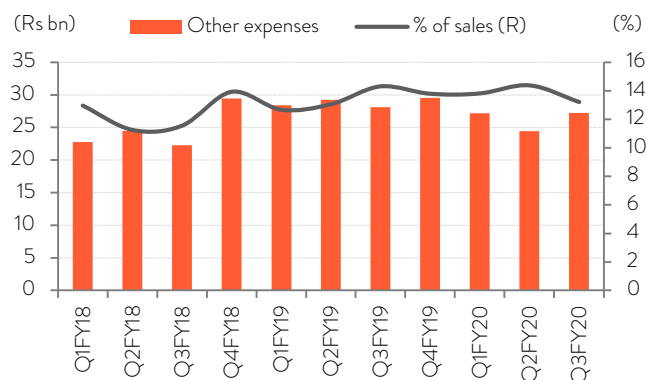
Source: Company, BOBCAPS Research

FIG 6 – EMPLOYEE COST/SALES TREND



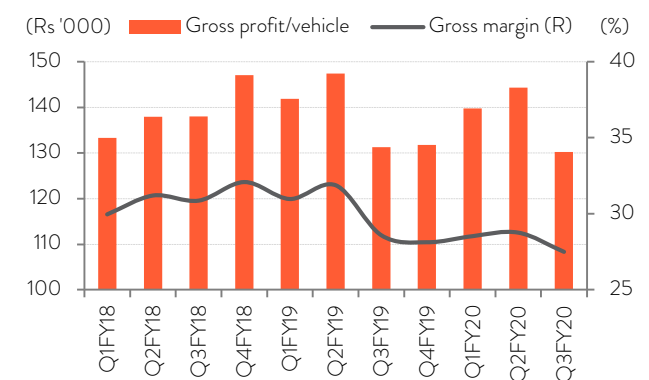
Source: Company, BOBCAPS Research

FIG 7 – OTHER EXPENSES/SALES TREND



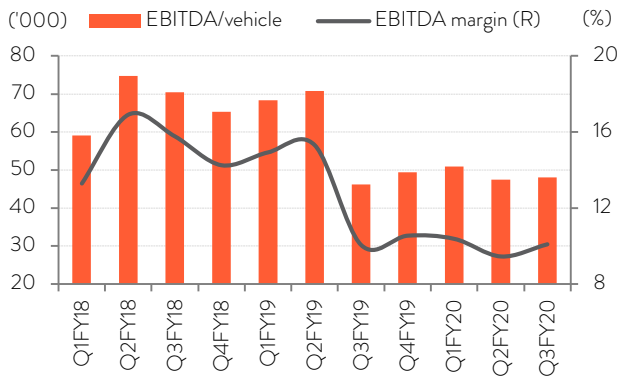
Source: Company, BOBCAPS Research

FIG 8 – GROSS PROFIT/VEHICLE



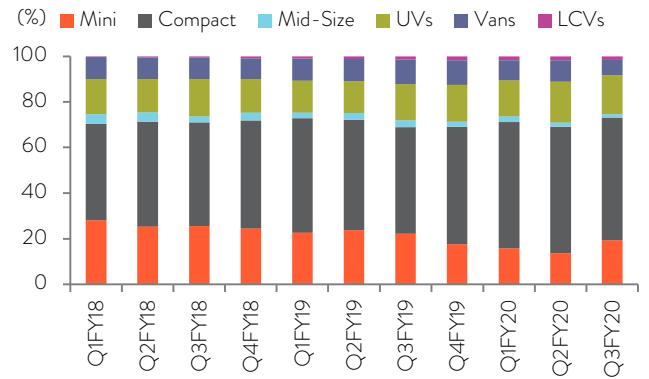
Source: Company, BOBCAPS Research

FIG 9 – EBITDA/VEHICLE



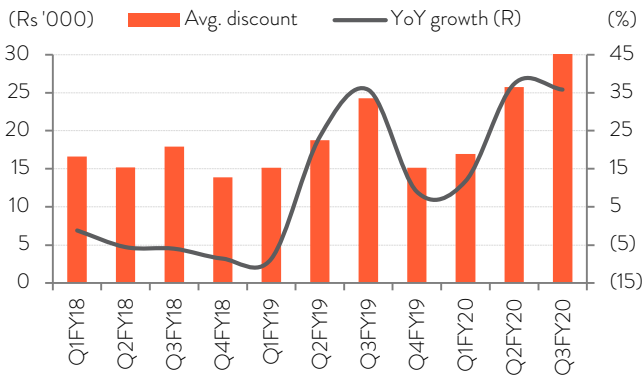
Source: Company, BOBCAPS Research

FIG 10 – MSIL'S SEGMENT MIX



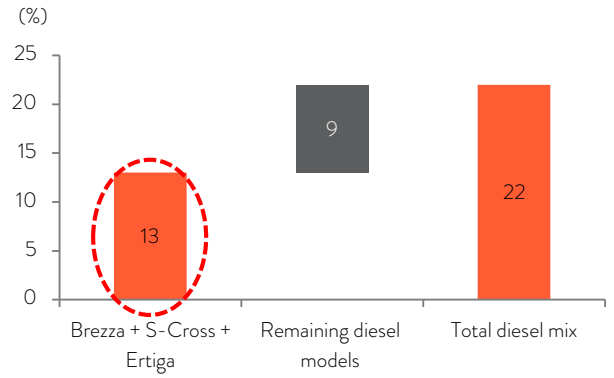
Source: Company, SIAM, ET Autolytics, BOBCAPS Research

FIG 11 – AVERAGE DISCOUNTS



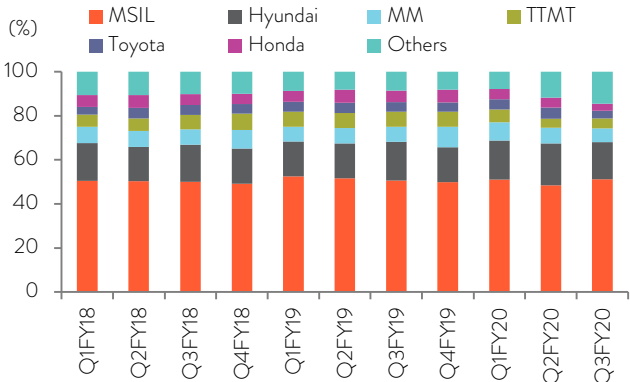
Source: Company, BOBCAPS Research

FIG 12 – DIESEL MIX IN MSIL'S PRODUCT PORTFOLIO



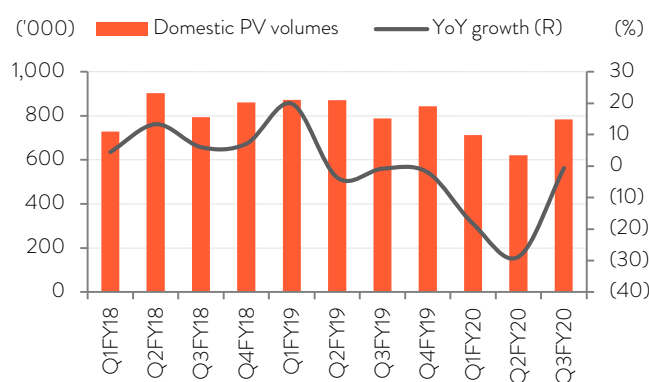
Source: Industry, BOBCAPS Research Note: Above mix based on Apr-Oct'19

FIG 13 – PV MARKET SHARE TRENDS



Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 14 – INDUSTRY PV VOLUMES TRENDS



Source: SIAM, ET Autolytics, BOBCAPS Research

Earnings call highlights

- At 501k units, MSIL's retail sales in Q3FY20 were higher than wholesale volumes. This helped the company reduce stock to 52k units (~9 days of inventory). Stock of diesel vehicles is at 8k units (MSIL averages ~27k retail sales of diesel models per month).
- Average discounts per vehicle for Q3 were at Rs 33k – the highest ever – as against Rs 24k in the year-ago quarter, but have been lowered from Jan'20 onwards. Discounts had a 130-140bps negative impact on operating margins.
- Management foresees a decline in the diesel mix going ahead. In Q3, diesel vehicle mix for the industry fell below 30%. January would be MSIL's last month for production of diesel vehicles.
- Rural sales growth has been higher than urban areas and comprises ~38% of the company's domestic volumes. Management expects rural demand to pick up on the back of encouraging rabi sowing trends and a subsequent rise in farm income levels.
- Commodity costs are hardening with steel prices rising and prices of other precious metals (palladium, rhodium) having almost doubled from last year.
- Total royalty for Q3 was at 5.4% of sales (MSIL 3.8%/SMG 1.6%).
- Depreciation charge has come off in Q3 as accelerated depreciation on the diesel plant was largely reflected in H1FY20.
- Vehicles sourced from the Gujarat plant (SMG) were at 116,718 units in Q3FY20.
- Capex guidance for FY20 is ~Rs 40bn, of which Rs 25bn has already been spent in 9MFY20.
- Normalised tax rate is expected at 22% going ahead
- MSIL's localisation levels for BS-VI vehicles are largely similar to BS-IV vehicles at 88-89%.
- As per SIAM, the PV industry is expected to grow 3-5% YoY in FY21.

Valuation methodology

MSIL is currently trading at 27x FY21E EPS which is similar to its past five-year average. In our view, valuations should largely sustain given an earnings recovery phase. We trim our FY20-FY22 earnings estimates by 1-2% largely driven by reduction in ASPs to reflect a lower diesel mix. Maintain BUY with a Mar'21 target price of Rs 8,825, based on an unchanged P/E multiple of 27x FY22E EPS.

FIG 15 – REVISED ESTIMATES

Change (%)	FY20E	FY21E	FY22E
Volume	0.0	0.0	0.0
Net sales	(1.6)	(1.5)	(1.4)
EBITDA	(4.2)	(2.1)	(2.0)
EBITDA margin (bps)	(29)	(7)	(9)
Adj. PAT	(2.2)	(1.1)	(1.0)
EPS (Rs)	(2.2)	(1.1)	(1.0)

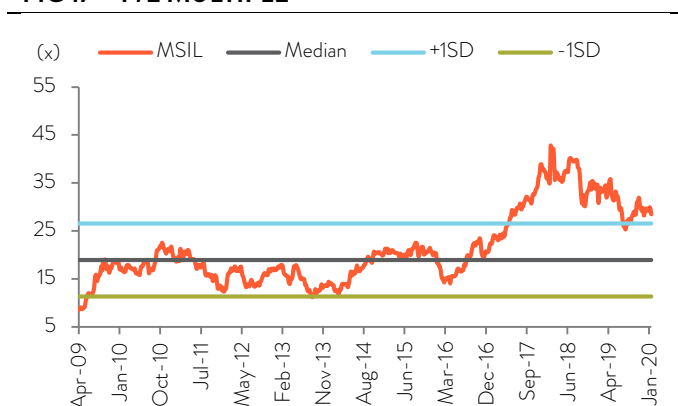
Source: BOBCAPS Research

FIG 16 – VOLUME ASSUMPTIONS

(Nos)	FY20E	FY21E	FY22E
Domestic	1,529,809	1,648,191	1,779,786
Exports	106,221	116,305	127,504
Total	1,636,030	1,764,497	1,907,290
YoY growth	(12.1)	7.9	8.1

Source: BOBCAPS Research

FIG 17 – P/E MULTIPLE

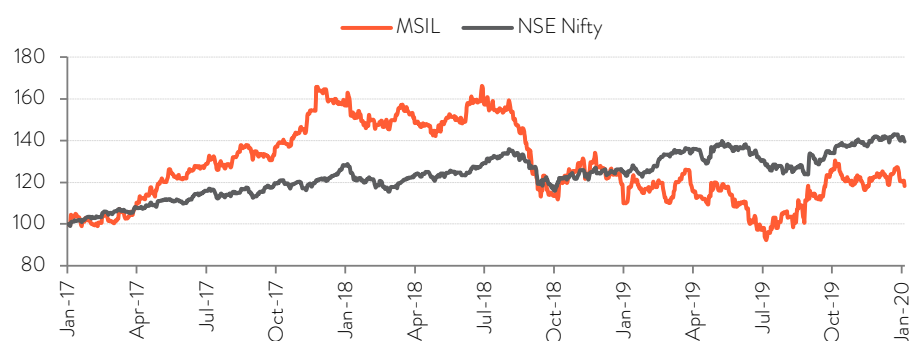


Source: BOBCAPS Research, Bloomberg

FIG 18 – EV/EBITDA MULTIPLE



Source: BOBCAPS Research, Bloomberg

FIG 19 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- MSIL's collaboration with Toyota in India for cross-supply of vehicle production will entail sharing of models such as Vitara Brezza, Ertiga and Ciaz in the future. Any significant volume and market share losses will dent earnings and possibly trigger a derating
- If PV demand is polarised sharply towards UVs, the company may end up losing above-expected market share as it is underrepresented in this segment.
- MSIL has ~10-12% of net exposure in foreign currency (mainly JPY). Sharp INR depreciation will adversely impact margins.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	797,627	860,203	796,237	885,746	988,195
EBITDA	120,615	110,473	83,289	105,985	131,140
Depreciation	27,579	30,189	36,042	40,522	44,685
EBIT	93,036	80,284	47,248	65,463	86,456
Net interest income/(expenses)	(909)	(758)	(1,301)	(1,327)	(1,352)
Other income/(expenses)	20,455	25,610	34,196	37,603	41,436
Exceptional items	(2,548)	(480)	0	0	0
EBT	110,034	104,656	80,143	101,739	126,540
Income taxes	32,816	29,650	17,631	22,383	27,839
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	77,218	75,006	62,511	79,356	98,701
Adjustments	1,784	336	0	0	0
Adjusted net profit	79,002	75,342	62,511	79,356	98,701

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	104,970	96,330	91,622	101,921	113,710
Other current liabilities	50,055	51,069	52,069	53,069	54,069
Provisions	10,297	9,094	9,364	9,634	9,904
Debt funds	1,108	1,496	1,496	1,496	1,496
Other liabilities	0	0	0	0	0
Equity capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	416,063	459,905	496,746	542,882	601,719
Shareholders' fund	417,573	461,415	498,256	544,392	603,229
Total liabilities and equities	584,003	619,404	652,807	710,513	782,409
Cash and cash eq.	341,531	356,599	385,593	430,415	492,704
Accounts receivables	14,618	23,104	21,815	24,267	27,074
Inventories	31,608	33,257	32,722	36,401	40,611
Other current assets	34,904	31,665	33,940	36,215	38,490
Investments	12,082	10,340	10,340	10,340	10,340
Net fixed assets	133,590	154,078	159,037	163,515	158,830
CWIP	21,259	16,001	15,000	15,000	20,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(5,589)	(5,640)	(5,640)	(5,640)	(5,640)
Other assets	0	0	0	0	0
Total assets	584,003	619,404	652,807	710,513	782,409

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	104,797	105,195	98,553	119,879	143,386
Interest expenses	909	758	1,301	1,327	1,352
Non-cash adjustments	927	51	0	0	0
Changes in working capital	27,610	(15,725)	(3,889)	3,164	3,767
Other operating cash flows	0	0	0	0	0
Cash flow from operations	134,243	90,279	95,965	124,369	148,504
Capital expenditures	(36,978)	(45,419)	(40,000)	(45,000)	(45,000)
Change in investments	(3,456)	1,742	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(40,434)	(43,677)	(40,000)	(45,000)	(45,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3,728)	388	0	0	0
Interest expenses	(909)	(758)	(1,301)	(1,327)	(1,352)
Dividends paid	(22,656)	(24,166)	(25,670)	(33,220)	(39,864)
Other financing cash flows	(1,300)	(6,998)	0	0	0
Cash flow from financing	(28,593)	(31,534)	(26,971)	(34,547)	(41,216)
Changes in cash and cash eq.	65,216	15,068	28,994	44,823	62,288
Closing cash and cash eq.	341,531	356,599	385,593	430,415	492,704

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	255.7	248.4	207.0	262.8	326.8
Adjusted EPS	261.6	249.5	207.0	262.8	326.8
Dividend per share	75.0	80.0	85.0	110.0	132.0
Book value per share	1,382.7	1,527.9	1,649.9	1,802.6	1,997.4

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.4	2.1	2.2	2.0	1.7
EV/EBITDA	15.6	16.4	21.2	16.5	13.0
Adjusted P/E	26.7	28.0	33.8	26.6	21.4
P/BV	5.1	4.6	4.2	3.9	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.2	71.7	78.0	78.0	78.0
Interest burden (PBT/EBIT)	118.3	130.4	169.6	155.4	146.4
EBIT margin (EBIT/Revenue)	11.7	9.3	5.9	7.4	8.7
Asset turnover (Revenue/Avg TA)	146.8	143.0	125.2	129.9	132.4
Leverage (Avg TA/Avg Equity)	139.0	136.9	132.6	130.8	130.1
Adjusted ROAE	18.5	16.3	12.5	14.6	16.4

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	17.2	7.8	(7.4)	11.2	11.6
EBITDA	16.5	(8.4)	(24.6)	27.2	23.7
Adjusted EPS	7.5	(4.6)	(17.0)	26.9	24.4
Profitability & Return ratios (%)					
EBITDA margin	15.1	12.8	10.5	12.0	13.3
EBIT margin	11.7	9.3	5.9	7.4	8.7
Adjusted profit margin	9.9	8.8	7.9	9.0	10.0
Adjusted ROAE	19.8	16.9	12.8	15.0	17.0
ROCE	26.7	22.6	16.1	18.7	21.0
Working capital days (days)					
Receivables	7	10	11	11	11
Inventory	17	16	17	17	17
Payables	70	58	59	59	60
Ratios (x)					
Gross asset turnover	1.8	1.8	1.5	1.5	1.5
Current ratio	2.6	2.8	3.1	3.2	3.4
Net interest coverage ratio	102.3	105.9	36.3	49.3	64.0
Adjusted debt/equity	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

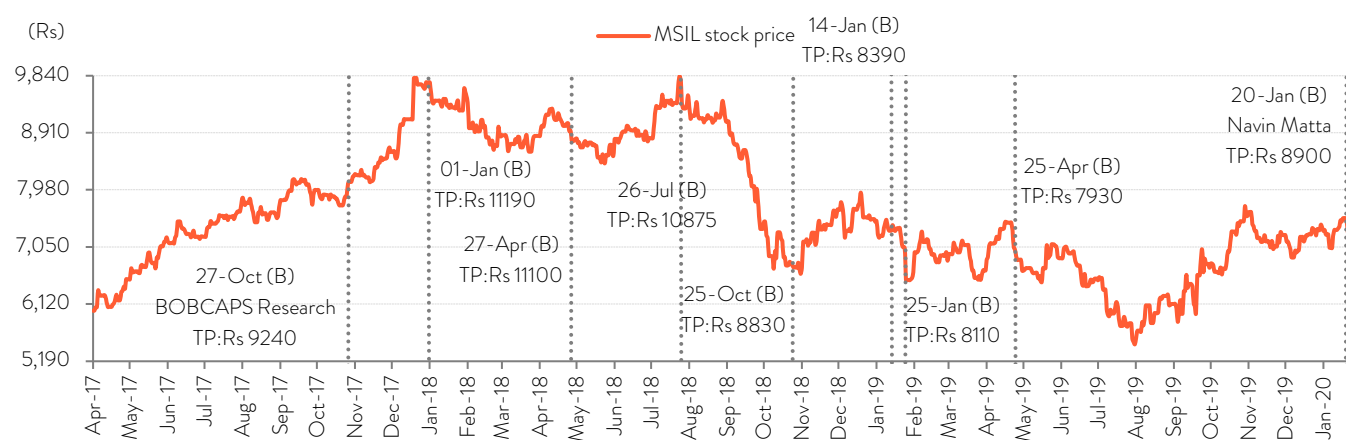
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: MARUTI SUZUKI (MSIL IN)



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

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