

**SELL**

TP: Rs 6,900 | ▼ 9%

**MARUTI SUZUKI**

Automobiles

28 January 2021

## Operational performance along expected lines; maintain SELL

**Maruti (MSIL) reported Q3FY21 earnings of Rs 19bn backed by higher other income and a lower tax rate. Revenue was slightly below estimates at Rs 235bn while EBITDA margin at 9.5% was in line. With expected revival and planned relaunch of diesel variants in FY22, we expect a monthly sales run-rate of ~150,000 vehicles in FY22. But the sharp spike in input costs is likely to exert heavy pressure on margins in the near-to-mid-term. We estimate a revenue/PAT CAGR of 22%/35% over FY21-FY23 and retain our Mar'22 TP of Rs 6,900.**

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**In-line operating performance:** At Rs 234.6bn (+13% YoY), MSIL's revenue was ~3% lower than our estimate, affected by softer ASP due to higher sales promotion expenses. EBITDA margin at 9.5% was in line with our projection, leading to EBITDA growth of 6% YoY to Rs 22.3bn. Adj. PAT for Q3 grew ahead of estimates at 24% YoY to Rs 19.4bn due to higher-than-expected treasury income and a lower tax rate of 21% (~25% estimated).

Ticker/Price	MSIL IN/Rs 7,589
Market cap	US\$ 31.4bn
Shares o/s	302mn
3M ADV	US\$ 117.9mn
52wk high/low	Rs 8,329/Rs 4,001
Promoter/FPI/DII	56%/21%/17%

Source: NSE

**Spike in input costs to depress margins:** Steel forms ~60% of the raw material used in a car. Since Sep'20, steel prices have surged >90% (from ~US\$ 540/t to >US\$ 1,000), which can have a devastating impact on margins. Even if steel averages at US\$ 750-800, MSIL will need to hike prices by over 15% to maintain Q2FY21 margins (10.3%).

## STOCK PERFORMANCE



Source: NSE

**Maintain SELL:** Our revenue forecasts are higher than the street, limiting any positive surprise from volume growth. After the steep >10% price increase taken by most automakers due to BSVI transition, we see little scope for further sharp hikes, implying the raw material cost burden will erode margins in the near-to-medium term. The street's view of gross margin expansion in FY22 and FY23 looks overstated. We maintain our Mar'22 TP of Rs 6,900 set at 26x FY23E EPS and recommend SELL.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	860,203	756,106	688,350	927,746	1,027,015
EBITDA (Rs mn)	109,993	73,026	53,144	87,940	101,416
Adj. net profit (Rs mn)	91,700	56,506	43,697	68,497	79,834
Adj. EPS (Rs)	193.0	187.1	144.7	226.8	264.3
Adj. EPS growth (%)	(8.9)	(3.1)	(22.7)	56.8	16.6
Adj. ROAE (%)	13.3	11.9	8.8	12.9	13.7
Adj. P/E (x)	39.3	40.6	52.5	33.5	28.7
EV/EBITDA (x)	20.8	31.2	42.9	26.0	22.6

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)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Volume	495,897	437,361	13.4	393,130	26.1	965,626	1,178,636	(18.1)
Avg. Realisation per Vehicle	473,038	473,449	(0.1)	476,802	(0.8)	479,573	487,105	(1.5)
Net Revenues	234,578	207,068	13.3	187,445	25.1	463,088	574,119	(19.3)
<b>Total Income (A)</b>	<b>234,578</b>	<b>207,068</b>	<b>13.3</b>	<b>187,445</b>	<b>25.1</b>	<b>463,088</b>	<b>574,119</b>	<b>(19.3)</b>
<b>Operating Expenses:</b>								
Raw materials consumed	170,156	150,130	13.3	131,143	29.7	330,663	412,037	(19.7)
Employee Expenses	9,455	8,670	9.1	8,268	14.4	25,026	25,645	(2.4)
Other Expenses	32,706	27,247	20.0	28,698	14.0	74,436	78,875	(5.6)
<b>Total Expenditure (B)</b>	<b>212,317</b>	<b>186,047</b>	<b>14.1</b>	<b>168,109</b>	<b>26.3</b>	<b>430,125</b>	<b>516,557</b>	<b>(16.7)</b>
<b>EBITDA (A-B)</b>	<b>22,261</b>	<b>21,021</b>	<b>5.9</b>	<b>19,336</b>	<b>15.1</b>	<b>32,963</b>	<b>57,562</b>	<b>(42.7)</b>
Other Income	9,937	7,840	26.7	6,025	64.9	29,145	25,404	14.7
Depreciation	7,413	8,580	(13.6)	7,659	(3.2)	22,905	27,027	(15.3)
EBIT	24,785	20,281	22.2	17,702	40.0	39,203	55,939	(29.9)
Finance Costs	287	217	32.3	224	28.1	684	1,046	(34.6)
PBT after excep items	24,498	20,064	22.1	17,478	40.2	38,519	54,893	(29.8)
Tax expense	5,084	4,416	15.1	3,762	35.1	7,883	11,304	(30.3)
<b>Reported PAT</b>	<b>19,414</b>	<b>15,648</b>	<b>24.1</b>	<b>13,716</b>	<b>41.5</b>	<b>30,636</b>	<b>43,589</b>	<b>(29.7)</b>
<b>Adjusted PAT</b>	<b>19,414</b>	<b>15,648</b>	<b>24.1</b>	<b>13,716</b>	<b>41.5</b>	<b>30,636</b>	<b>43,589</b>	<b>(29.7)</b>
<b>Adj EPS (Rs)</b>	<b>64.3</b>	<b>51.8</b>	<b>24.1</b>	<b>45.4</b>	<b>41.5</b>	<b>101.4</b>	<b>144.3</b>	<b>(29.7)</b>

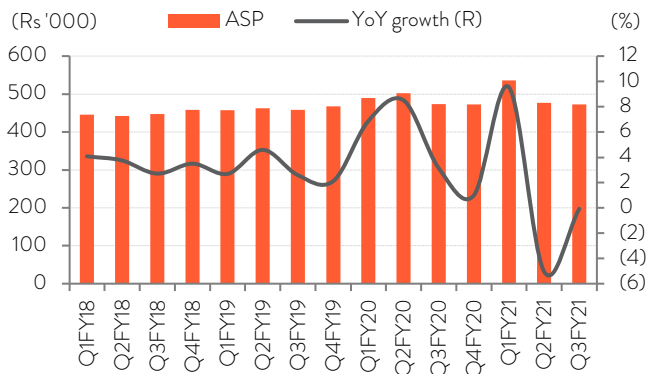
Source: Company, BOBCAPS Research

**FIG 2 – KEY PARAMETERS**

(%)	Q3FY21	Q3FY20	YoY (bps)	Q2FY21	QoQ (bps)	9MFY21	9MFY20	YoY (bps)
Gross margin	27.5	27.5	(3)	30.0	(257)	28.6	28.2	36
EBITDA margin	9.5	10.2	(66)	10.3	(83)	7.1	10.0	(291)
EBIT margin	10.6	9.8	77	9.4	112	8.5	9.7	(128)
PBT margin	10.4	9.7	75	9.3	112	8.3	9.6	(124)
Tax rate	20.8	22.0	(126)	21.5	(77)	20.5	20.6	(13)
Adj PAT margin	8.3	7.6	72	7.3	96	6.6	7.6	(98)

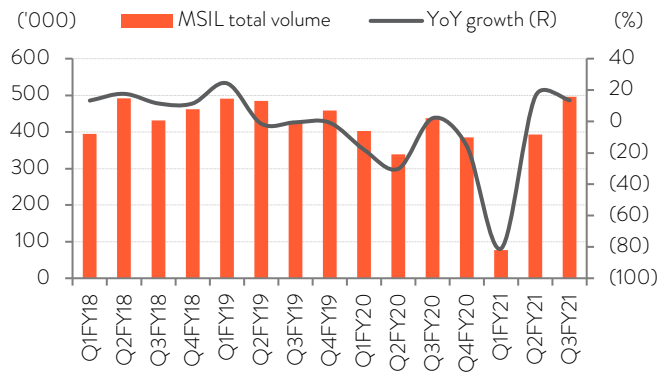
Source: Company, BOBCAPS Research

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



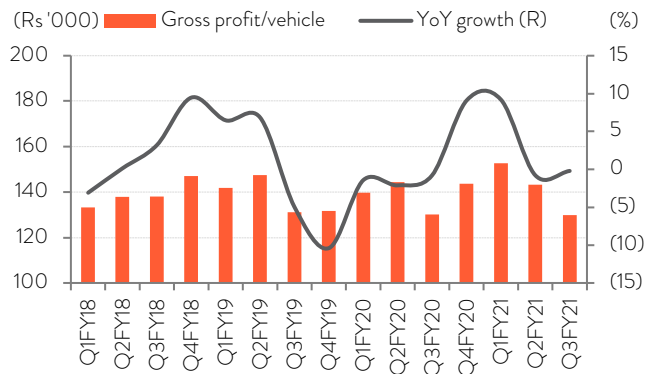
Source: Company, BOBCAPS Research

**FIG 4 – TOTAL VOLUMES**



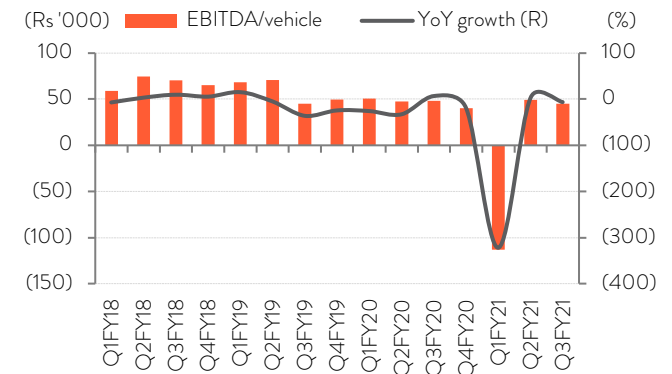
Source: Company, BOBCAPS Research

**FIG 5 – GROSS PROFIT/VEHICLE**



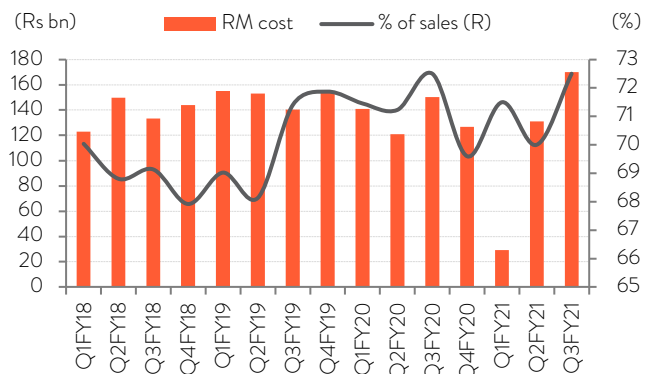
Source: Company, BOBCAPS Research

**FIG 6 – EBITDA/VEHICLE**



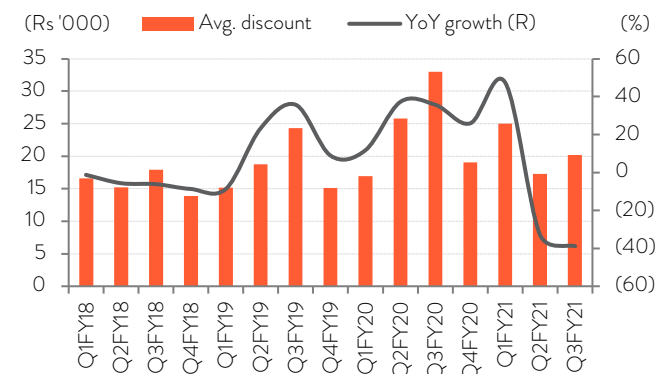
Source: Company, BOBCAPS Research

**FIG 7 – RM COST/SALES TREND**

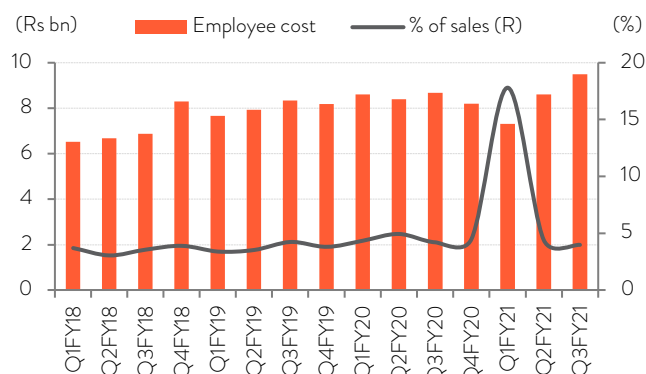


Source: Company, BOBCAPS Research

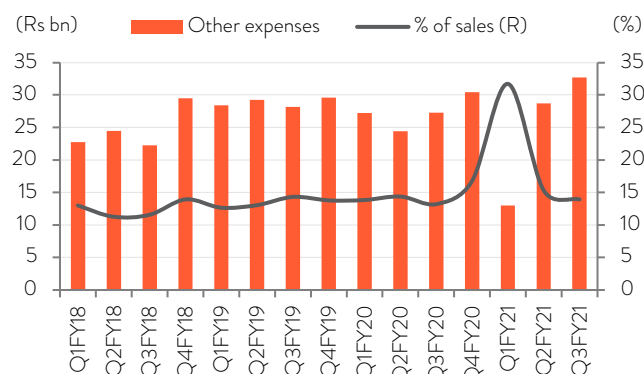
**FIG 8 – AVERAGE DISCOUNT/VEHICLE**



Source: Company, BOBCAPS Research

**FIG 9 – EMPLOYEE COST/SALES TREND**

Source: Company, BOBCAPS Research

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

Source: Company, BOBCAPS Research

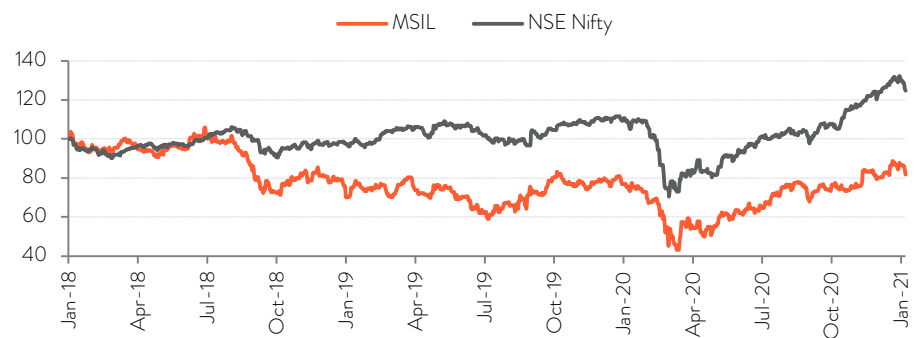
### Earnings call highlights

- Demand following the festive season has been better than expected driven by an uptick in urban areas and continued momentum in rural areas.
- Due to healthy demand, MSIL currently has an order backlog of ~215k vehicles and very lower channel inventory.
- Raw material cost inflation has been steep in Q3FY21 and continues in Q4. Management expects the rise in RM cost to hurt profitability given that a nominal product price hike will not suffice to mitigate the burden.
- Unavailability of steel is a clear risk due to the demand-supply scenario, but MSIL is not facing any challenges at present.
- Replacement demand which formed ~26% of total FY20 sales for the industry (and for MSIL) has dropped to 17% in 9MFY21 – indicative of the fact that people are holding on to existing vehicles.
- MSIL has started exporting its new SUV model 'Jimny'. Timelines for sale in the Indian market were not disclosed.
- Discounts for Q3FY21 averaged Rs 20,185 per vehicle.
- Royalty rate was at 4.9% of sales during the quarter.

## Valuation methodology

Our revenue forecasts are higher than the street, limiting any positive surprise from volume growth. After the steep >10% price increase taken by most automakers due to BSVI transition, we see little scope for further sharp hikes, implying the raw material cost burden will erode margins in the near-to-medium term. The street's view of gross margin expansion in FY22 and FY23 looks overstated. We maintain our Mar'22 target price of Rs 6,900 set at 26x FY23E EPS and recommend SELL.

**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>688,350</b>	<b>927,746</b>	<b>1,027,015</b>
EBITDA	109,993	73,026	53,144	87,940	101,416
Depreciation	30,189	35,257	30,604	35,677	39,352
EBIT	105,414	71,977	58,548	92,374	107,530
Net interest income/(expenses)	(758)	(1,329)	(900)	(800)	(800)
Other income/(expenses)	25,610	34,208	36,007	40,111	45,466
Exceptional items	(16,694)	0	0	0	0
EBT	104,656	70,648	57,648	91,574	106,730
Income taxes	29,650	14,142	13,951	23,077	26,896
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>43,697</b>	<b>68,497</b>	<b>79,834</b>
Adjustments	16,694	0	0	0	0
<b>Adjusted net profit</b>	<b>91,700</b>	<b>56,506</b>	<b>43,697</b>	<b>68,497</b>	<b>79,834</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	102,741	78,549	78,947	106,709	95,978
Other current liabilities	24,293	19,484	35,390	44,456	42,862
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	508,433	552,764	608,432
Shareholders' fund	461,415	484,370	509,943	554,274	609,942
<b>Total liabilities and equities</b>	<b>623,678</b>	<b>619,537</b>	<b>654,452</b>	<b>735,611</b>	<b>778,954</b>
Cash and cash eq.	1,789	211	2,141	739	(5,129)
Accounts receivables	23,104	21,270	22,716	27,832	27,729
Inventories	33,257	32,149	30,976	37,110	41,081
Other current assets	15,011	13,547	10,238	11,225	11,920
Investments	365,150	364,676	409,676	481,676	528,676
Net fixed assets	154,078	157,812	147,208	146,531	142,179
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>654,452</b>	<b>735,611</b>	<b>778,954</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	74,301	104,175	119,186
Interest expenses	(758)	(1,329)	(900)	(800)	(800)
Non-cash adjustments	(25,610)	(34,208)	(36,007)	(40,111)	(45,466)
Changes in working capital	(20,367)	(19,579)	12,379	24,590	(16,888)
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>49,773</b>	<b>87,853</b>	<b>56,033</b>
Capital expenditures	(45,419)	(36,364)	(21,626)	(34,000)	(37,000)
Change in investments	(12,248)	474	(45,000)	(72,000)	(47,000)
Other investing cash flows	25,610	34,208	36,007	40,111	45,466
<b>Cash flow from investing</b>	<b>(32,057)</b>	<b>(1,682)</b>	<b>(30,619)</b>	<b>(65,889)</b>	<b>(38,534)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	5,030	604	0	0	0
Interest expenses	(758)	(1,329)	(900)	(800)	(800)
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>(19,025)</b>	<b>(24,966)</b>	<b>(24,966)</b>
<b>Changes in cash and cash eq.</b>	<b>16,422</b>	<b>3,146</b>	<b>129</b>	<b>(3,002)</b>	<b>(7,468)</b>
<b>Closing cash and cash eq.</b>	<b>1,789</b>	<b>211</b>	<b>2,141</b>	<b>739</b>	<b>(5,129)</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	193.0	187.1	144.7	226.8	264.3
Adjusted EPS	193.0	187.1	144.7	226.8	264.3
Dividend per share	80.0	80.0	60.0	80.0	80.0
Book value per share	1,527.5	1,603.5	1,688.1	1,834.9	2,019.1

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.7	3.0	3.3	2.5	2.2
EV/EBITDA	20.8	31.2	42.9	26.0	22.6
Adjusted P/E	39.3	40.6	52.5	33.5	28.7
P/BV	5.0	4.7	4.5	4.1	3.8

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	55.7	80.0	75.8	74.8	74.8
Interest burden (PBT/EBIT)	99.3	98.2	98.5	99.1	99.3
EBIT margin (EBIT/Revenue)	12.3	9.5	8.5	10.0	10.5
Asset turnover (Revenue/Avg TA)	187.3	152.6	132.4	167.2	169.8
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	13.3	11.9	8.8	12.9	13.7

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)	(9.0)	34.8	10.7
EBITDA	(8.8)	(33.6)	(27.2)	65.5	15.3
Adjusted EPS	(8.9)	(3.1)	(22.7)	56.8	16.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.8	9.7	7.7	9.5	9.9
EBIT margin	12.3	9.5	8.5	10.0	10.5
Adjusted profit margin	10.7	7.5	6.3	7.4	7.8
Adjusted ROAE	13.3	11.9	8.8	12.9	13.7
ROCE	16.0	11.3	8.3	12.2	13.0
<b>Working capital days (days)</b>					
Receivables	8	11	12	10	10
Inventory	20	22	23	13	14
Payables	65	61	58	51	50
<b>Ratios (x)</b>					
Gross asset turnover	0.3	0.4	0.5	0.4	0.4
Current ratio	0.5	0.6	0.5	0.5	0.5
Net interest coverage ratio	(139.1)	(54.2)	(65.1)	(115.5)	(134.4)
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%

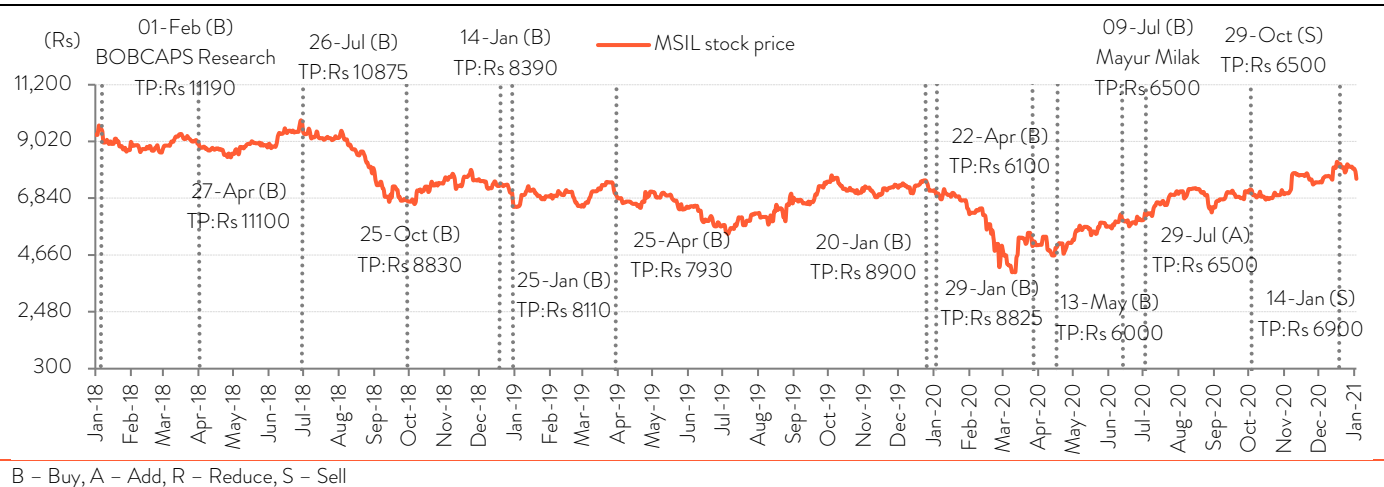
**ADD** – Expected return from >+5% to +15%

**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)



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