

BUY

TP: Rs 6,000 | ▲ 19%

MARUTI SUZUKI

Automobiles

13 May 2020

Near-term outlook hazy; maintain faith on solid franchise

Maruti's (MSIL) Q4FY20 operating performance missed estimates due to a sequential dip in ASP and negative operating leverage. Although near-term demand remains uncertain, the potential shift in preference towards personal mobility due to the pandemic should work in MSIL's favour, especially given its dominance in entry-to-mid segment PVs. We cut FY21/ FY22 earnings by 1-6% to factor in the impact from an extended lockdown, and revise our Mar'21 TP to Rs 6,000 (vs. Rs 6,100) based on 25x FY22E EPS.

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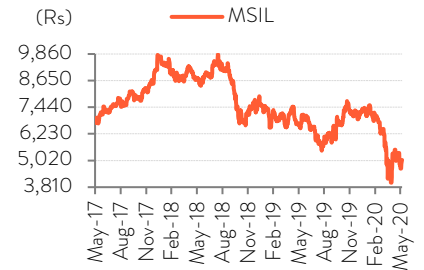
Q4 operating performance misses estimates: Revenues for MSIL fell 15% YoY to Rs 182bn, slightly below our estimates led by a dip in ASP due to a lower mix of diesel vehicles. Adjusted for BS-IV discontinuation cost (Rs 1.25bn), EBITDA at Rs 16.7bn saw a 26% YoY drop. EBITDA margin declined by 130bps YoY and 100bps QoQ to 9.2%. While discount per vehicle at Rs 19k fell sharply QoQ, management cited reduced utilisation and higher A&P spends as key factors behind margin pressure. A lower tax rate limited the fall in adj. PAT to 21% YoY at Rs 14.2bn.

Ticker/Price	MSIL IN/Rs 5,036
Market cap	US\$ 20.2bn
Shares o/s	302mn
3M ADV	US\$ 111.1mn
52wk high/low	Rs 7,759/Rs 4,001
Promoter/FPI/DII	56%/23%/15%

Source: NSE

Covid-19 effect – downtrading and shift to personal mobility: Management refrained from giving out any guidance on demand outlook for FY21. But MSIL believes the economic dislocation caused by Covid-19 could have an adverse impact on affordability and hence induce downtrading in the PV segment. On the other hand, the potential shift away from shared mobility could have a positive impact on demand for PVs, especially in the entry-to-mid segments.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: While the near-term outlook appears challenging, we maintain our positive view on MSIL given its solid franchise and dominant market share in passenger cars, along with a healthy balance sheet (cash/Mcap at ~25%). MSIL trades at 21x FY22E EPS which is 20% below its five-year mean. BUY.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	797,627	860,203	756,106	702,174	828,967
EBITDA (Rs mn)	120,615	110,473	74,276	67,162	98,056
Adj. net profit (Rs mn)	79,002	75,342	57,756	49,044	72,330
Adj. EPS (Rs)	261.6	249.5	191.2	162.4	239.5
Adj. EPS growth (%)	7.5	(4.6)	(23.3)	(15.1)	47.5
Adj. ROAE (%)	19.8	16.9	12.0	9.7	13.4
Adj. P/E (x)	19.3	20.2	26.3	31.0	21.0
EV/EBITDA (x)	10.7	11.0	15.8	17.4	11.8

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)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net Revenues	181,987	214,594	(15.2)	207,068	(12.1)	756,106	860,203	(12.1)
Raw Materials	126,664	151,599	(16.4)	146,811	(13.7)	535,382	599,905	(10.8)
% of Net Sales	69.6	70.6	-	70.9	-	70.8	69.7	-
Personnel	8,194	8,169	0.3	8,670	(5.5)	33,839	32,069	5.5
% of Net Sales	4.5	3.8	-	4.2	-	4.5	3.7	-
Manufacturing & Other Exp	30,415	32,192	(5.5)	30,566	(0.5)	112,609	117,980	(4.6)
% of Net Sales	16.7	15.0	-	14.8	-	14.9	13.7	-
Total Expenditure	165,273	191,960	(13.9)	186,047	(11.2)	681,830	749,954	(9.1)
EBITDA	16,714	22,634	(26.2)	21,021	(20.5)	74,276	110,249	(32.6)
EBITDA Margin (%)	9.2	10.5	-	10.2	-	9.8	12.8	-
Depreciation	8,230	8,102	1.6	8,580	(4.1)	35,257	30,189	16.8
EBIT	8,484	14,532	(41.6)	12,441	(31.8)	39,019	80,060	(51.3)
Interest Expenses	283	88	221.6	217	30.4	1,329	758	75.3
Non-operating income	8,804	8,677	1.5	7,840	12.3	34,208	25,834	32.4
Extraordinary Expenses	1,250	0	-	0	-	1,250	480	-
PBT	15,755	23,121	(31.9)	20,064	(21.5)	71,898	104,656	(31.3)
Tax-Total	2,838	5,165	(45.1)	4,416	(35.7)	14,142	29,650	(52.3)
Tax Rate (%) - Total	18.0	22.3	(19.4)	22.0		19.7	28.3	(30.6)
Reported PAT	12,917	17,956	(28.1)	15,648	(17.5)	56,506	75,006	(23.0)
Adj. PAT	14,167	17,956	(21.1)	15,648	(9.5)	57,756	75,486	(24.7)
PAT Margin	7.8	8.4	-	7.6	-	7.6	8.8	-

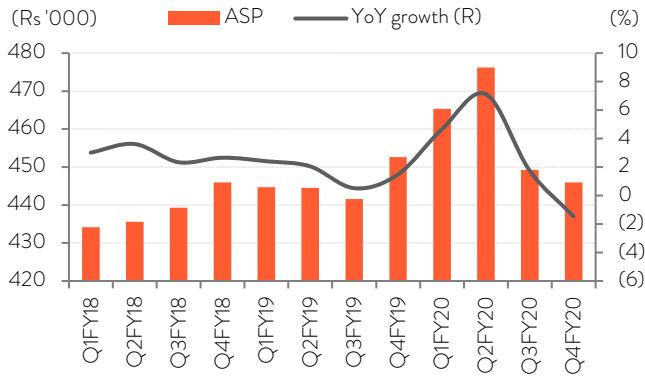
Source: Company, BOBCAPS Research

FIG 2 – PER UNIT PARAMETERS

Per vehicle metrics (Rs)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Volume (nos)	385,025	458,202	(16.0)	437,361	(12.0)	1,563,497	1,862,172	(16.0)
Net Realisation/Vehicle	472,663	468,339	0.9	473,449	(0.2)	483,599	461,935	4.7
Material cost/Vehicle	328,976	330,856	(0.6)	335,675	(2.0)	342,426	322,153	6.3
Gross Profit/Vehicle	143,687	137,483	4.5	137,774	4.3	141,173	139,782	1.0
Employee cost/Vehicle	21,282	17,828	19.4	19,823	7.4	21,643	17,221	25.7
Other expenses/Vehicle	78,995	70,257	12.4	69,887	13.0	72,024	63,356	13.7
EBITDA/Vehicle	43,410	49,397	(12.1)	48,063	(9.7)	47,506	59,205	(19.8)
Net Profit/Vehicle	36,795	39,188	(6.1)	35,778	2.8	36,940	40,459	(8.7)

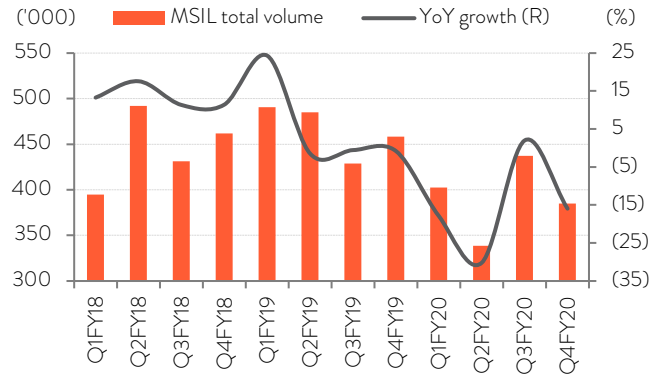
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE (ASP)



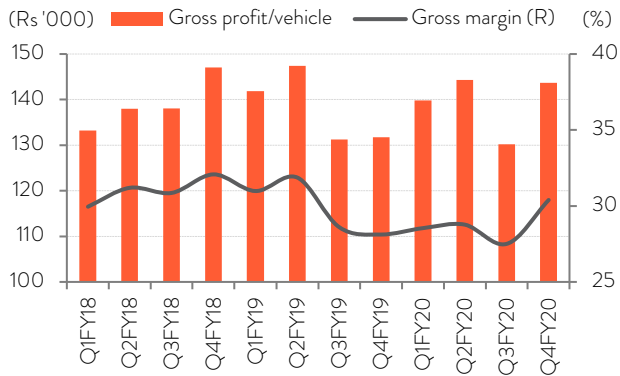
Source: Company, BOBCAPS Research

FIG 4 – TOTAL VOLUMES



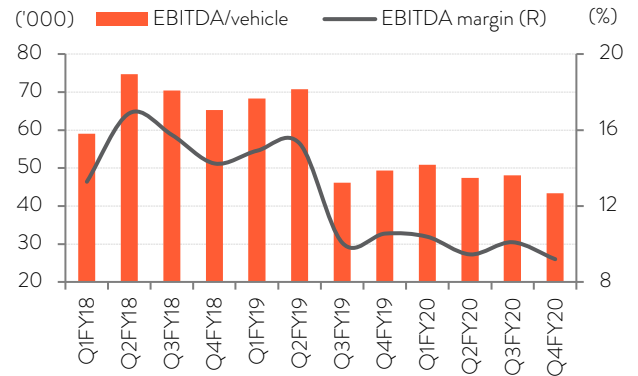
Source: Company, BOBCAPS Research

FIG 5 – GROSS PROFIT/VEHICLE



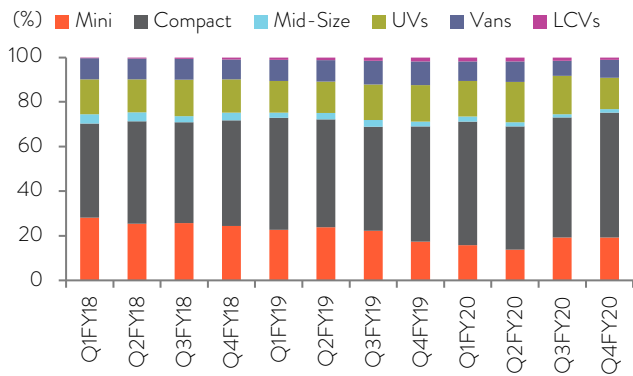
Source: Company, BOBCAPS Research

FIG 6 – EBITDA/VEHICLE



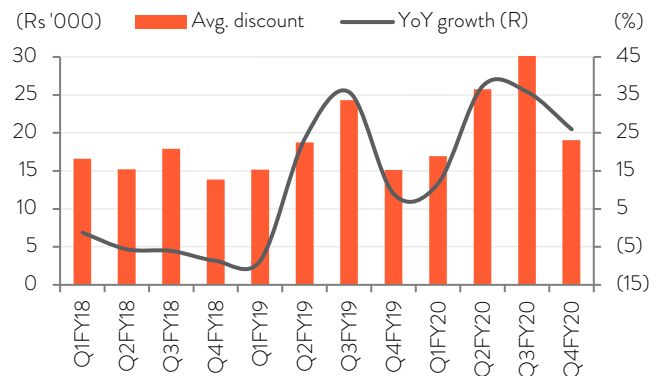
Source: Company, BOBCAPS Research

FIG 7 – SEGMENT MIX



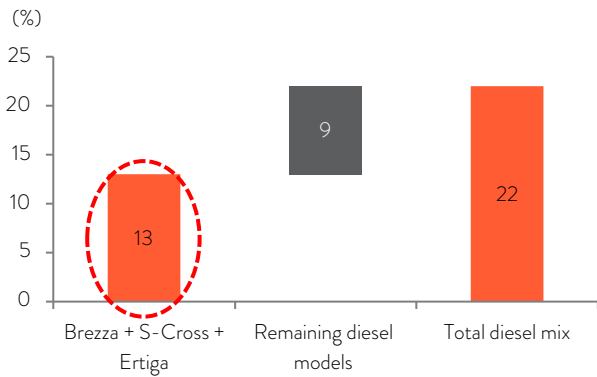
Source: Company, SIAM, ET Autolytics, BOBCAPS Research

FIG 8 – AVERAGE DISCOUNT/VEHICLE



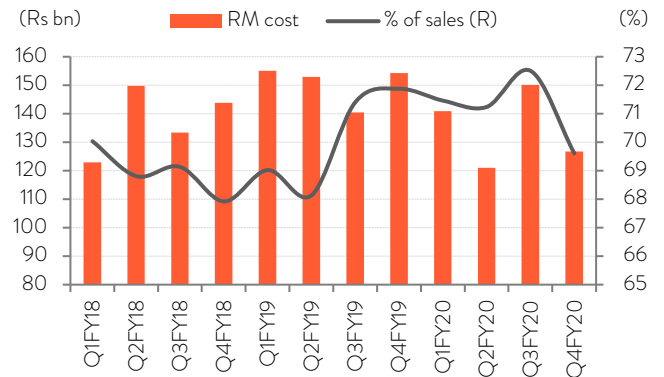
Source: Company, BOBCAPS Research

FIG 9 – DIESEL MIX IN MSIL'S PRODUCT PORTFOLIO



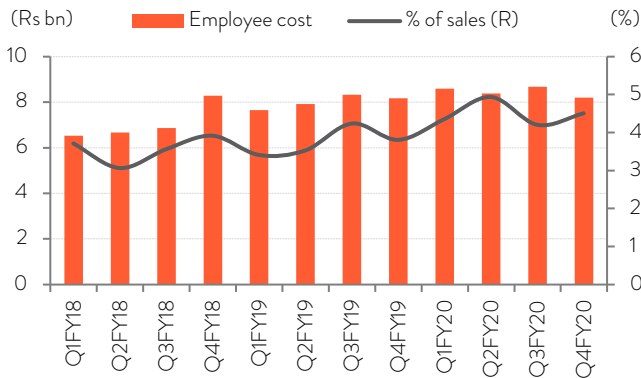
Source: Industry, BOBCAPS Research | Note: Above mix based on Apr-Dec'19

FIG 10 – RM COST/SALES TREND



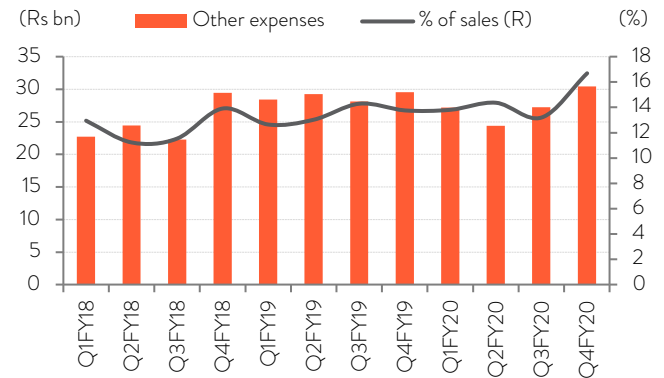
Source: Company, BOBCAPS Research

FIG 11 – EMPLOYEE COST/SALES TREND



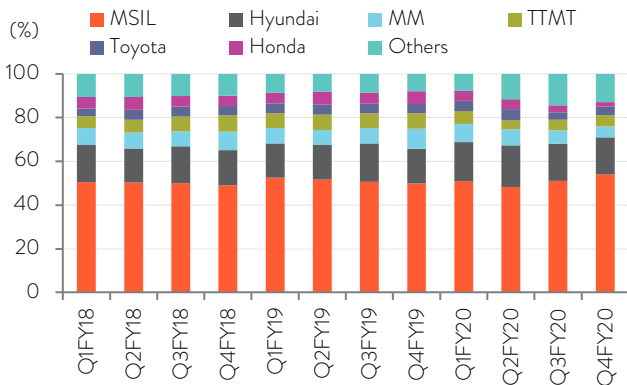
Source: Company, BOBCAPS Research

FIG 12 – OTHER EXPENSES/SALES TREND



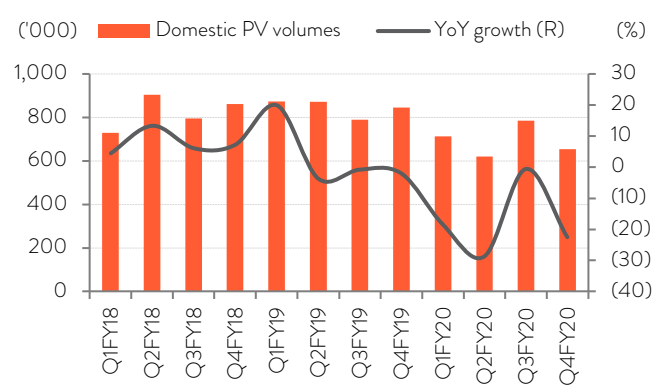
Source: Company, BOBCAPS Research

FIG 13 – PV MARKET SHARE TRENDS



Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 14 – INDUSTRY PV VOLUME TRENDS



Source: SIAM, ET Autolytics, BOBCAPS Research

Earnings call highlights

- Average discount/vehicle for Q4FY20 were at Rs 19k as against Rs 15.1k for Q4FY19 and Rs 33k in Q3FY20. However, per MSIL management, trends in discounting remain uncertain given the current situation and discount levels may vary across brands and locations.
- Management foresees a decline in diesel mix going ahead. In Q4, diesel car sales for the industry fell below 20% of total volumes and was at just 7% for MSIL. The share of diesel vehicles remains higher for the mid and upper SUV segments.
- MSIL has commenced production at the Manesar plant from 12 May and the Gurugram plant should open next week. Restarting the Gujarat plant remains doubtful due to the high number of Covid-19 cases around the site. This apart, ~1,100 dealers have opened their outlets and sold ~2.5k vehicles since May.
- About 39% of the company's customers are from rural areas. Further segmenting its customer base, management mentioned that 45% of total customers are salaried, 35% are into business, 11-15% are self-employed while the rest are retired/housewives.
- MSIL took a hit of Rs 1.2bn on account of BS-IV discontinuation cost (writing off component stock).
- In FY20, capex was at Rs 32.5bn; outlay for FY21 has been reduced to Rs 27bn. Capex plans for long-term projects have not been deferred.
- Total royalty for Q4FY20 was at 5.4% of sales (5.3% for FY20). MSIL has now started grouping SMG-related royalty costs under other expenses vs. raw material costs earlier.
- The company sold over 800k BS-VI vehicles in FY20.

Valuation methodology

With the lockdown effect and severe economic dislocation caused by Covid-19, we expect MSIL's volumes to decline by 10% YoY in FY21. Nonetheless, we think pent-up demand could drive a solid recovery in demand for PVs in FY22.

We cut our FY21/FY22 EPS estimates by 1-6% to factor in the longer-than-expected lockdown due to Covid-19. MSIL currently trades at 21x FY22E EPS which is a ~20% discount to its past five-year mean. We maintain our BUY rating on the stock with a revised Mar'21 target price of Rs 6,000 (Rs 6,100 earlier), based on 25x FY22E EPS.

FIG 15 – REVISED ESTIMATES

Change (%)	FY21E	FY22E
Volume	(3.0)	(2.7)
Net sales	(2.8)	(2.6)
EBITDA	(3.3)	(2.3)
EBITDA Margin (bps)	(28)	(23)
Adj. PAT	(1.4)	(1.1)
EPS (Rs)	(5.9)	(1.1)

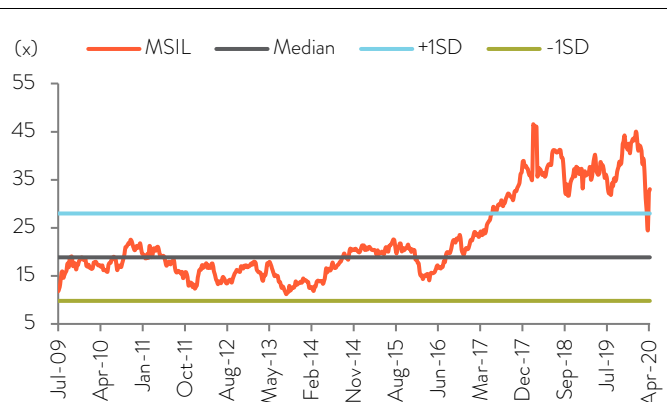
Source: BOBCAPS Research

FIG 16 – VOLUME ASSUMPTIONS

(Nos)	FY21E	FY22E
Domestic	1,320,174	1,513,944
Exports	91,954	100,614
Total	1,412,128	1,614,558
YoY growth	(9.7)	14.3

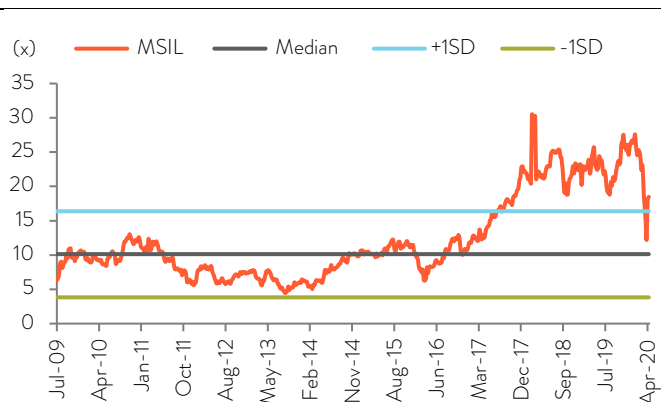
Source: BOBCAPS Research

FIG 17 – P/E MULTIPLE

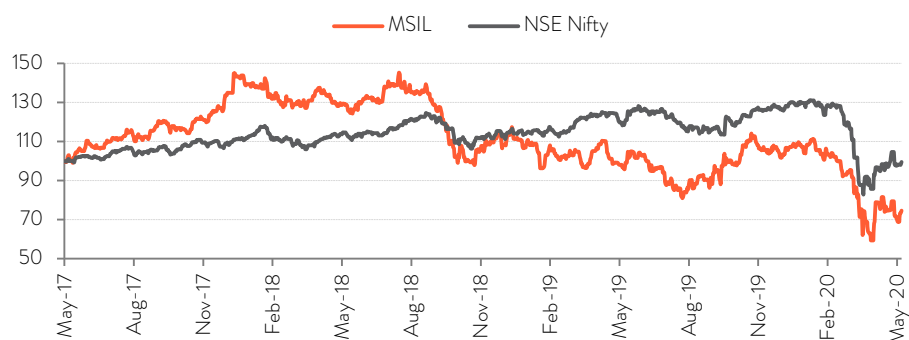


Source: BOBCAPS Research, Bloomberg

FIG 18 – EV/EBITDA MULTIPLE



Source: BOBCAPS Research, Bloomberg

FIG 19 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- A prolonged slowdown in economic activity caused by the Covid-19 pandemic could have a sharper-than-expected adverse impact on PV demand.
- 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	FY20P	FY21E	FY22E
Total revenue	797,627	860,203	756,106	702,174	828,967
EBITDA	120,615	110,473	74,276	67,162	98,056
Depreciation	27,579	30,189	35,257	35,761	40,676
EBIT	93,036	80,284	39,019	31,401	57,380
Net interest income/(expenses)	(909)	(758)	(1,329)	(1,257)	(1,191)
Other income/(expenses)	20,455	25,610	34,208	32,733	36,542
Exceptional items	(2,548)	(480)	(1,250)	0	0
EBT	110,034	104,656	70,648	62,877	92,731
Income taxes	32,816	29,650	14,142	13,833	20,401
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	77,218	75,006	56,506	49,044	72,330
Adjustments	1,784	336	1,250	0	0
Adjusted net profit	79,002	75,342	57,756	49,044	72,330

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	104,970	96,330	74,941	80,798	95,388
Other current liabilities	50,055	51,069	44,889	45,889	46,889
Provisions	10,297	9,094	9,005	8,872	9,142
Debt funds	1,108	1,496	1,063	1,063	1,063
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	482,860	509,254	549,874
Shareholders' fund	417,573	461,415	484,370	510,764	551,384
Total liabilities and equities	584,003	619,404	614,268	647,386	703,866
Cash and cash eq.	341,531	356,599	352,699	386,933	431,283
Accounts receivables	14,618	23,104	21,270	26,933	27,254
Inventories	31,608	33,257	32,149	28,856	34,067
Other current assets	34,904	31,665	30,760	33,035	35,310
Investments	12,082	10,340	12,188	12,188	12,188
Net fixed assets	133,590	154,078	157,812	150,425	149,748
CWIP	21,259	16,001	13,374	15,000	20,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(5,589)	(5,640)	(5,984)	(5,984)	(5,984)
Other assets	0	0	0	0	0
Total assets	584,003	619,404	614,268	647,386	703,866

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	104,797	105,195	91,763	84,805	113,007
Interest expenses	909	758	1,329	1,257	1,191
Non-cash adjustments	927	51	344	0	0
Changes in working capital	27,610	(15,725)	(23,811)	2,079	8,053
Other operating cash flows	0	0	0	0	0
Cash flow from operations	134,243	90,279	69,625	88,141	122,251
Capital expenditures	(36,978)	(45,419)	(36,364)	(30,000)	(45,000)
Change in investments	(3,456)	1,742	(1,848)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(40,434)	(43,677)	(38,212)	(30,000)	(45,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3,728)	388	(433)	0	0
Interest expenses	(909)	(758)	(1,329)	(1,257)	(1,191)
Dividends paid	(22,656)	(24,166)	(18,120)	(22,650)	(31,710)
Other financing cash flows	(1,300)	(6,998)	(15,431)	0	0
Cash flow from financing	(28,593)	(31,534)	(35,313)	(23,907)	(32,901)
Changes in cash and cash eq.	65,216	15,068	(3,900)	34,234	44,350
Closing cash and cash eq.	341,531	356,599	352,699	386,933	431,283

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	255.7	248.4	187.1	162.4	239.5
Adjusted EPS	261.6	249.5	191.2	162.4	239.5
Dividend per share	75.0	80.0	60.0	75.0	105.0
Book value per share	1,382.7	1,527.9	1,603.9	1,691.3	1,825.8

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	1.6	1.4	1.6	1.7	1.4
EV/EBITDA	10.7	11.0	15.8	17.4	11.8
Adjusted P/E	19.3	20.2	26.3	31.0	21.0
P/BV	3.6	3.3	3.1	3.0	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	70.2	71.7	80.0	78.0	78.0
Interest burden (PBT/EBIT)	118.3	130.4	181.1	200.2	161.6
EBIT margin (EBIT/Revenue)	11.7	9.3	5.2	4.5	6.9
Asset turnover (Revenue/Avg TA)	146.8	143.0	122.6	111.3	122.7
Leverage (Avg TA/Avg Equity)	139.0	136.9	130.4	126.8	127.2
Adjusted ROAE	18.5	16.3	11.7	9.6	13.1

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	17.2	7.8	(12.1)	(7.1)	18.1
EBITDA	16.5	(8.4)	(32.8)	(9.6)	46.0
Adjusted EPS	7.5	(4.6)	(23.3)	(15.1)	47.5
Profitability & Return ratios (%)					
EBITDA margin	15.1	12.8	9.8	9.6	11.8
EBIT margin	11.7	9.3	5.2	4.5	6.9
Adjusted profit margin	9.9	8.8	7.6	7.0	8.7
Adjusted ROAE	19.8	16.9	12.0	9.7	13.4
ROCE	26.7	22.6	14.9	12.4	16.8
Working capital days (days)					
Receivables	7	10	11	15	13
Inventory	17	16	17	17	17
Payables	70	58	52	60	61
Ratios (x)					
Gross asset turnover	1.8	1.8	1.5	1.3	1.4
Current ratio	2.6	2.8	3.4	3.5	3.5
Net interest coverage ratio	102.3	105.9	29.4	25.0	48.2
Adjusted debt/equity	(0.8)	(0.8)	(0.7)	(0.8)	(0.8)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

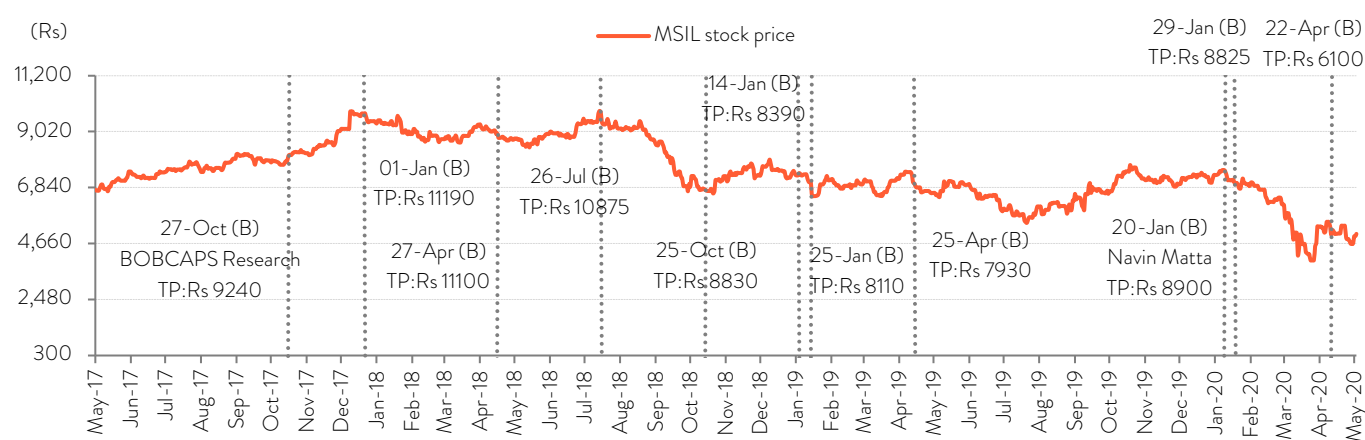
ADD – Expected return from >+5% to +15%

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)

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



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

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