

ADD

TP: Rs 6,500 | ▲ 5%

MARUTI SUZUKI

Automobiles

29 July 2020

Weak Q1; upsides limited – downgrade to ADD

Maruti (MSIL) reported a disappointing Q1FY21. Though revenue was ahead of estimates, operating inefficiencies led to negative EBITDA. MSIL derives >40% of revenues from rural India. With strong farm sector growth and relaunch of diesel variants in H2FY21, we expect the company to clock a run-rate of ~150,000 units a month in FY22. We estimate a revenue/EBITDA/PAT CAGR of 12%/15%/13% over FY20-FY23. Valuing the stock at 26x Sep'22E EPS, we maintain our TP at Rs 6,500. Downgrade from BUY to ADD.

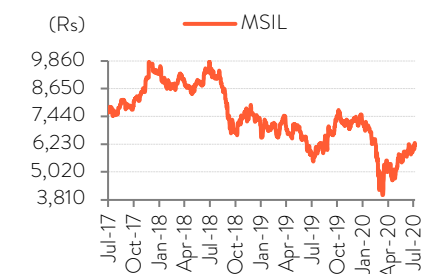
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Disappointing Q1: Revenue declined 79% YoY to Rs 41bn (albeit ahead of estimates) but operating inefficiencies led to a negative EBITDA margin (-21%). Despite higher other income, MSIL reported its first ever loss at Rs 2.5bn.

Ticker/Price	MSIL IN/Rs 6,185
Market cap	US\$ 25.0bn
Shares o/s	302mn
3M ADV	US\$ 125.2mn
52wk high/low	Rs 7,759/Rs 4,001
Promoter/FPI/DII	56%/21%/17%

Source: NSE

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 its domestic revenues come from rural India, we believe MSIL will be a direct beneficiary of this strong growth.

STOCK PERFORMANCE

Source: NSE

Muted FY21 volume assumptions: Due to the current uncertainty, we assume a volume decline of 18% YoY in FY21. 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.

Downgrade to ADD: We expect ROCE and ROE to improve to 12.4% and 13.1% respectively in FY22. Valuing MSIL at 26x one-year forward EPS, we have a Sep'21 TP of Rs 6,500. Cut from BUY to ADD as upsides look capped.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	860,203	756,106	651,773	945,676	1,046,863
EBITDA (Rs mn)	109,993	73,026	61,366	97,417	111,003
Adj. net profit (Rs mn)	91,700	56,506	41,906	70,037	81,125
Adj. EPS (Rs)	193.0	187.1	138.7	231.8	268.6
Adj. EPS growth (%)	(8.9)	(3.1)	(25.8)	67.1	15.8
Adj. ROAE (%)	13.3	11.9	8.4	13.1	13.8
Adj. P/E (x)	32.0	33.1	44.6	26.7	23.0
EV/EBITDA (x)	16.9	25.4	30.2	19.1	16.8

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

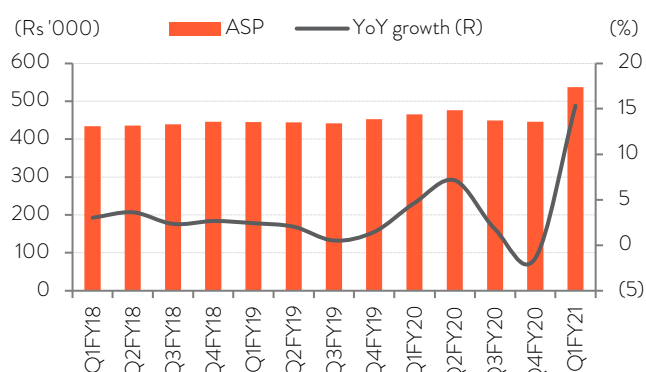
(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Volume	76,599	402,958	(81.0)	385,025	(80.1)
Avg. Realisation per Vehicle	536,104	489,376	9.5	472,663	13.4
Net Revenues	41,065	197,198	(79.2)	181,987	(77.4)
Total Income (A)	41,065	197,198	(79.2)	181,987	(77.4)
Operating Expenses:					
Raw materials consumed	29,364	140,913	(79.2)	127,914	(77.0)
Employee Expenses	7,303	8,591	(15.0)	8,194	(10.9)
Other Expenses	13,032	27,216	(52.1)	30,415	(57.2)
Total Expenditure (B)	49,699	176,720	(71.9)	166,523	(70.2)
EBITDA (A-B)	(8,634)	20,478	NA	15,464	NA
Other Income	13,183	8,364	57.6	8,804	49.7
Depreciation	7,833	9,186	(14.7)	8,230	(4.8)
EBIT	(3,284)	19,656	NA	16,038	NA
Finance Costs	173	547	(68.4)	283	(38.9)
PBT after excep items	(3,457)	19,109	NA	15,755	NA
Tax expense	(963)	4,754	NA	2,838	NA
Reported PAT	(2,494)	14,355	NA	12,917	NA
Adjusted PAT	(2,494)	14,355	NA	12,917	NA
Adj EPS (Rs)	(8.3)	47.5	NA	42.8	NA

Source: Company, BOBCAPS Research

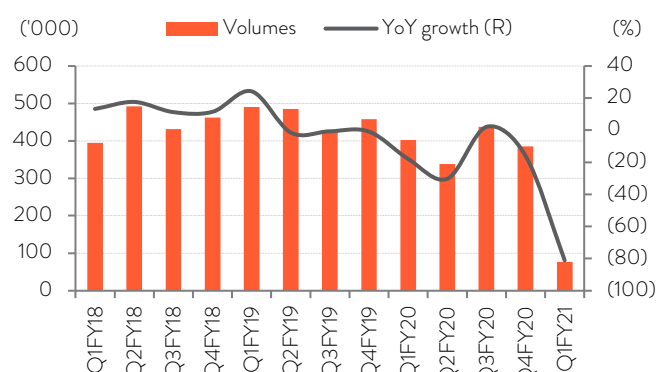
FIG 2 – KEY PARAMETERS

(%)	Q1FY21	Q1FY20	YoY (bps)	Q4FY20	QoQ (bps)
Gross margin	28.5	28.5	(5)	29.7	(122)
EBITDA margin	(21.0)	10.4	(3,141)	8.5	(2,952)
EBIT margin	(8.0)	10.0	(1,796)	8.8	(1,681)
PBT margin	(8.4)	9.7	(1,811)	8.7	(1,708)
Tax rate	27.9	24.9	298	18.0	984
Adj PAT margin	(6.1)	7.3	(1,335)	7.1	(1,317)

Source: Company, BOBCAPS Research

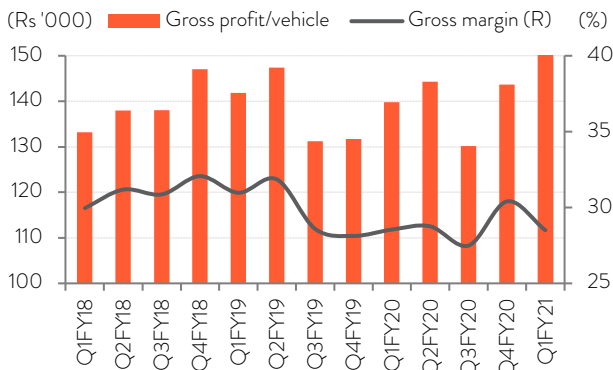
FIG 3 – AVERAGE SELLING PRICE (ASP)

Source: Company, BOBCAPS Research

FIG 4 – TOTAL VOLUMES

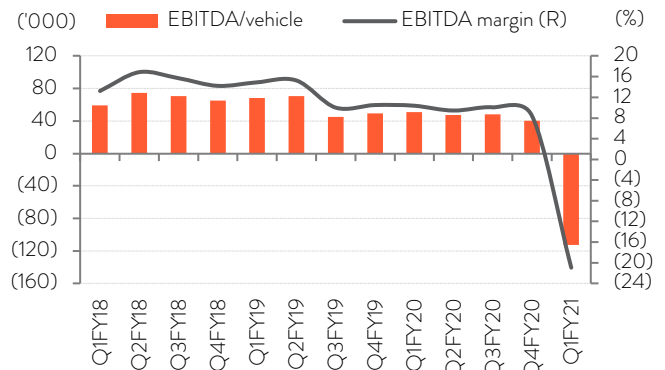
Source: Company, BOBCAPS Research

FIG 5 – GROSS PROFIT/VEHICLE



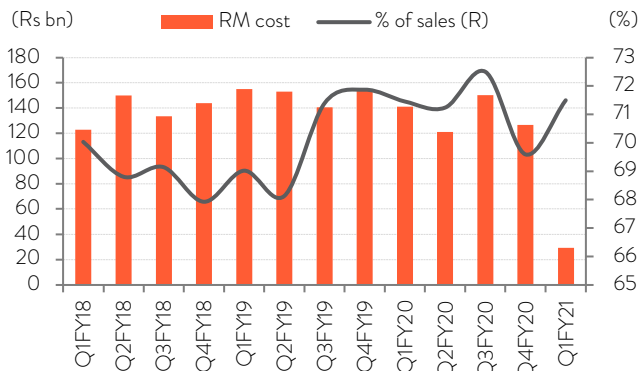
Source: Company, BOBCAPS Research

FIG 6 – EBITDA/VEHICLE



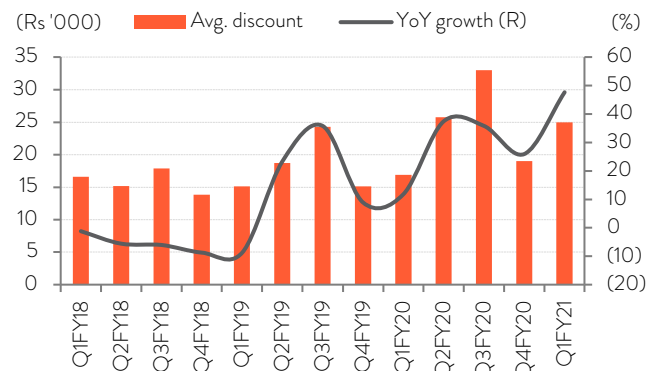
Source: Company, BOBCAPS Research

FIG 7 – RM COST/SALES TREND



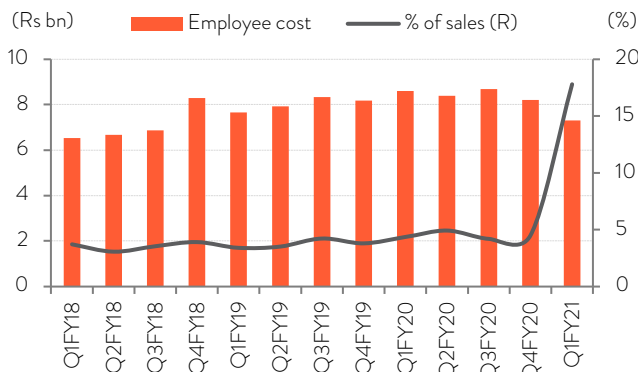
Source: Company, SIAM, ET Autolytics, BOBCAPS Research

FIG 8 – AVERAGE DISCOUNT/VEHICLE



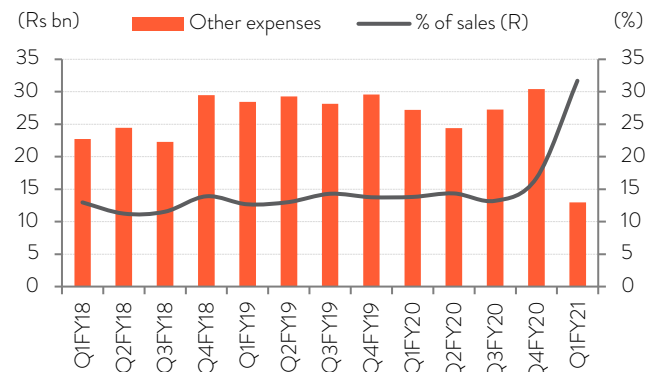
Source: Company, BOBCAPS Research

FIG 9 – EMPLOYEE COST/SALES TREND



Source: Company, BOBCAPS Research

FIG 10 – OTHER EXPENSES/SALES TREND



Source: Company, BOBCAPS Research

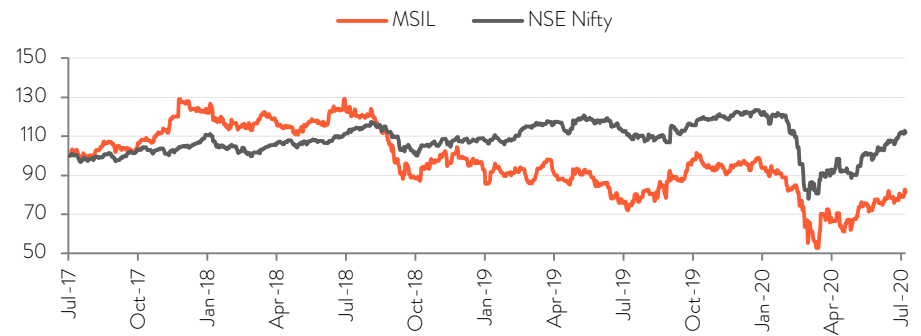
Earnings call highlights

- MSIL is witnessing 85-90% of pre-Covid demand levels, but the outlook remains cloudy and hinges on consumer sentiment and income levels.
- Demand for pre-owned cars has risen but is not matched by adequate supply given that replacement purchases are being deferred in the current climate.
- Of its ~3,000 retail outlets, 80-90% are currently operational. MSIL is extending help to dealers by clearing dues and providing infrastructure subsidies.
- Inventory level for the industry is ~170k units currently (vs. 250k in Mar'20), as per MSIL. The company currently has 80k units (~25 days) of inventory.
- In Q1FY21, diesel sales volume contribution for the industry dropped to 20.6% (vs. 29.6% in Q1FY20).
- Export revenue in Q1 stood at Rs 4.6bn.
- MSIL is currently producing ~4,000 units/day and can ramp up by 900 units/day once the second shift at its Gujarat plant becomes operational (indicative timeline of August).
- The company will launch the 'S-Cross' petrol variant in August.

Valuation methodology

We model for a volume CAGR of ~8% during FY20-FY23, leading to a revenue, EBITDA and PAT CAGR of 12%, 15% and 13% respectively for MSIL. ROCE and ROE are projected to improve to 12.4% and 13.1% respectively in FY22. At CMP, the stock is trading at 23x FY23E EPS. Valuing MSIL at 26x Sep'22E EPS, we maintain our target price at Rs 6,500. Downgrade from BUY to ADD as share price upsides look capped.

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Extension of lockdowns due to Covid-19 can impact the procurement of parts and lead to loss of production days.
- Below-expected demand can negatively affect MSIL's performance.
- Rise in prices of raw material can put pressure on operating margins.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	860,203	756,106	651,773	945,676	1,046,863
EBITDA	109,993	73,026	61,366	97,417	111,003
Depreciation	30,189	35,257	38,718	42,716	47,328
EBIT	105,414	71,977	57,224	94,632	109,456
Net interest income/(expenses)	(758)	(1,329)	(1,200)	(1,000)	(1,000)
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	56,024	93,632	108,456
Income taxes	29,650	14,142	14,118	23,595	27,331
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	75,006	56,506	41,906	70,037	81,125
Adjustments	16,694	0	0	0	0
Adjusted net profit	91,700	56,506	41,906	70,037	81,125

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	102,741	74,941	74,471	108,052	97,186
Other current liabilities	24,293	23,092	31,802	44,634	43,193
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	511,172	557,043	614,002
Shareholders' fund	461,415	484,370	512,682	558,553	615,512
Total liabilities and equities	623,678	619,537	649,127	741,412	786,063
Cash and cash eq.	1,789	211	5,864	5,100	5,429
Accounts receivables	23,104	21,270	21,508	28,370	28,265
Inventories	33,257	32,149	29,330	37,827	41,875
Other current assets	15,011	13,547	13,157	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
Total assets	623,678	619,537	649,127	741,412	786,063

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	121,889	91,763	80,624	112,753	128,453
Interest expenses	(758)	(1,329)	(1,200)	(1,000)	(1,000)
Non-cash adjustments	(25,610)	(34,208)	(34,576)	(39,931)	(45,781)
Changes in working capital	(20,367)	(19,579)	4,249	29,649	(16,958)
Other operating cash flows	(6,832)	0	0	0	0
Cash flow from operations	68,322	36,647	49,097	101,471	64,714
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
Cash flow from investing	(32,057)	(1,682)	(31,050)	(79,069)	(41,219)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	5,030	604	0	0	0
Interest expenses	(758)	(1,329)	(1,200)	(1,000)	(1,000)
Dividends paid	(24,166)	(18,125)	(13,594)	(24,166)	(24,166)
Other financing cash flows	51	(4,925)	0	0	0
Cash flow from financing	(19,843)	(23,775)	(14,794)	(25,166)	(25,166)
Changes in cash and cash eq.	16,422	11,190	3,253	(2,764)	(1,671)
Closing cash and cash eq.	1,789	211	5,864	5,100	5,429

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	193.0	187.1	138.7	231.8	268.6
Adjusted EPS	193.0	187.1	138.7	231.8	268.6
Dividend per share	80.0	60.0	45.0	80.0	80.0
Book value per share	1,527.5	1,603.5	1,697.2	1,849.0	2,037.6

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.2	2.5	2.8	2.0	1.8
EV/EBITDA	16.9	25.4	30.2	19.1	16.8
Adjusted P/E	32.0	33.1	44.6	26.7	23.0
P/BV	4.0	3.9	3.6	3.3	3.0

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	99.1
EBIT margin (EBIT/Revenue)	12.3	9.5	8.8	10.0	10.5
Asset turnover (Revenue/Avg TA)	187.3	152.6	125.0	169.3	171.6
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	13.3	11.9	8.4	13.1	13.8

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	7.8	(12.1)	(13.8)	45.1	10.7
EBITDA	(8.8)	(33.6)	(16.0)	58.7	13.9
Adjusted EPS	(8.9)	(3.1)	(25.8)	67.1	15.8
Profitability & Return ratios (%)					
EBITDA margin	12.8	9.7	9.4	10.3	10.6
EBIT margin	12.3	9.5	8.8	10.0	10.5
Adjusted profit margin	10.7	7.5	6.4	7.4	7.7
Adjusted ROAE	13.3	11.9	8.4	13.1	13.8
ROCE	16.0	11.3	8.0	12.4	13.1
Working capital days (days)					
Receivables	8	11	12	10	10
Inventory	20	22	24	13	14
Payables	65	60	59	49	50
Ratios (x)					
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)	(47.7)	(94.6)	(109.5)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

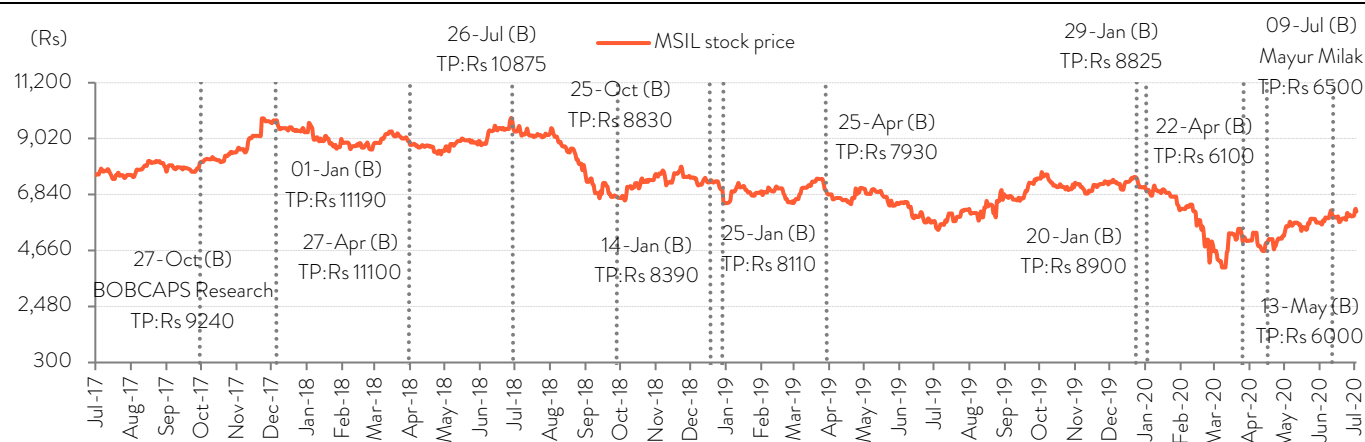
ADD – Expected return from >+5% to +15%

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)

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



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

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