

BUY

TP: Rs 8,000 | ▲ 22%

MARUTI SUZUKI

| Automobiles

| 27 April 2021

Strong growth outlook, attractive valuations – upgrade to BUY

Maruti (MSIL) posted in-line Q4FY21 revenue, but an adverse sales mix, higher input costs and lower other income pulled PAT down 10% YoY. Baking in Covid headwinds and planned relaunch of diesel variants, we expect MSIL to sell ~1.9mn vehicles in FY22 (+28% YoY). We pencil in a robust revenue/PAT CAGR of 22%/40% over FY21-FY23. Given a stronger outlook on growth and return ratios, we raise our target FY23E P/E from 26x to 30x and upgrade to BUY (vs. SELL) with a new Mar'22 TP of Rs 8,000 (vs. Rs 6,900).

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Adj. PAT falls short of estimates: MSIL's Q4 revenue was in line with expectations at Rs 240.2bn. However, below-expected gross margin led to a marginal EBITDA margin miss (8.3% vs. 9.1% est.). Lower other income at Rs 898mn was due to revaluation of investments, leading to sluggish adj. PAT at Rs 11.7bn (-10% YoY) despite a lower tax rate of 10%.

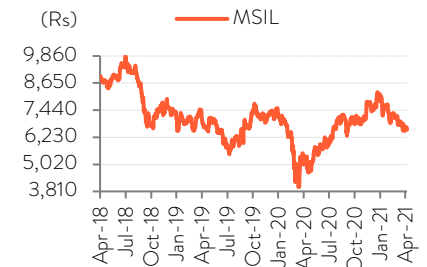
Higher volumes to drive growth: MSIL has been clocking an average monthly sales run-rate of over 160,000 vehicles since Sep'20 (barring Nov'20 when it sold ~153,000 units). We believe the company could clock stronger annual sales of ~1.9mn vehicles in FY22, factoring in the pandemic impact and the relaunch of its diesel variants during the year. Higher input costs will continue to impact profitability in the near term.

Upgrade to BUY: We expect MSIL to post a healthy revenue/PAT CAGR of 22%/40% over FY21-FY23, leading to ~500bps improvement in ROCE and ROE. The stock has corrected ~15% since our last SELL call and is trading at an attractive valuation of 24x FY23E EPS. Based on the improving growth prospects, we raise our target P/E multiple to 30x – in line with the 10Y average – and upgrade the stock to BUY with a revised Mar'22 TP of Rs 8,000.

Ticker/Price	MSIL IN/Rs 6,569
Market cap	US\$ 26.6bn
Shares o/s	302mn
3M ADV	US\$ 102.6mn
52wk high/low	Rs 8,329/Rs 4,638
Promoter/FPI/DII	56%/21%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	860,203	756,106	703,325	937,711	1,043,110
EBITDA (Rs mn)	109,993	73,026	53,453	81,071	98,841
Adj. net profit (Rs mn)	91,700	56,506	42,297	66,184	81,184
Adj. EPS (Rs)	193.0	187.1	140.0	219.1	268.7
Adj. EPS growth (%)	(8.9)	(3.1)	(25.1)	56.5	22.7
Adj. ROAE (%)	13.3	11.9	8.4	12.1	13.6
Adj. P/E (x)	34.0	35.1	46.9	30.0	24.4
EV/EBITDA (x)	18.0	27.0	36.9	24.1	19.8

Source: Company, BOBCAPS Research

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



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume	492,235	385,025	27.8	495,897	(0.7)	1,457,861	1,563,661	(6.8)
Avg. Realisation per Vehicle	488,053	472,663	3.3	473,038	3.2	482,436	483,549	(0.2)
Net Revenues	240,237	181,987	32.0	234,578	2.4	703,325	756,106	(7.0)
Total Income (A)	240,237	181,987	32.0	234,578	2.4	703,325	756,106	(7.0)
Operating Expenses:								
Raw materials consumed	177,509	127,914	38.8	170,156	4.3	508,172	531,566	(4.4)
Employee Expenses	9,003	8,194	9.9	9,455	(4.8)	34,029	33,839	0.6
Other Expenses	33,814	30,415	11.2	32,706	3.4	107,671	117,675	(8.5)
Total Expenditure (B)	220,326	166,523	32.3	212,317	3.8	649,872	683,080	(4.9)
EBITDA (A-B)	19,911	15,464	28.8	22,261	(10.6)	53,453	73,026	(26.8)
Other Income	898	8,804	(89.8)	9,937	(91.0)	29,464	34,208	(13.9)
Depreciation	7,410	8,230	(10.0)	7,413	0.0	30,315	35,257	(14.0)
EBIT	13,399	16,038	(16.5)	24,785	(45.9)	52,602	71,977	(26.9)
Finance Costs	324	283	14.5	287	12.9	1,008	1,329	(24.2)
PBT after excep items	13,075	15,755	(17.0)	24,498	(46.6)	51,594	70,648	(27.0)
Tax expense	1,414	2,838	(50.2)	5,084	(72.2)	9,297	14,142	(34.3)
Reported PAT	11,661	12,917	(9.7)	19,414	(39.9)	42,297	56,506	(25.1)
Adjusted PAT	11,661	12,917	(9.7)	19,414	(39.9)	42,297	56,506	(25.1)
Adj EPS (Rs)	38.6	42.8	(9.7)	64.3	(39.9)	140.0	187.1	(25.1)

Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

(%)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Gross margin	26.1	29.7	(360)	27.5	(135)	27.7	29.7	(195)
EBITDA margin	8.3	8.5	(21)	9.5	(120)	7.6	9.7	(206)
EBIT margin	5.6	8.8	(324)	10.6	(499)	7.5	9.5	(204)
PBT margin	5.4	8.7	(321)	10.4	(500)	7.3	9.3	(201)
Tax rate	10.8	18.0	(720)	20.8	(994)	18.0	20.0	(200)
Adj PAT margin	4.9	7.1	(224)	8.3	(342)	6.0	7.5	(146)

Source: Company, BOBCAPS Research

Earnings call highlights

- Demand currently appears to be on hold given micro-lockdowns at various locations. Thus, fresh bookings are moderating but enquiries are healthy.
- At the beginning of Apr'21, MSIL had network inventory of 32k which has risen to ~85k currently – below the normal range of 135-140k units. The company has an order backlog of ~200k vehicles.
- Raw material cost inflation has been steep in Q4FY21, up ~400bps YoY (+300bps QoQ). Management expects the rise in cost to hurt profitability given that a nominal product price hike will not suffice to mitigate the burden.
- MSIL is currently not hindered by any supply-side challenges and is running all its plants at full capacity. However, management remains cautious about the shortage of chips globally.
- Rural growth has been healthy at 7% YoY in FY21, with the overall revenue share from rural regions rising to 41% vs. 38.5% in FY20. Rural sales are expected to remain healthy given normal monsoon predictions and a better sowing season.
- Replacement demand which formed ~26% of FY20 sales for the industry (and for MSIL) has dropped to 18% in FY21 – indicative of the fact that people are holding on to existing vehicles. The proportion of first-time buyers has risen to 46% (+3.5% YoY).
- Discounts for Q4FY21 averaged at Rs 16,600 per vehicle.

Valuation methodology

We expect MSIL to post a healthy revenue/PAT CAGR of 22%/40% over FY21-FY23, leading to ~500bps improvement in ROCE and ROE. We believe the recent ~20% stock price correction since Jan'21 could have been in anticipation of a dismal margin performance amidst rising input costs. In our view, most of these pre-anticipated concerns are now reflecting in the current price and looking at its growth prospects, we expect the stock to trade at its long-term average multiple of 30x (in line with the 10-year average).

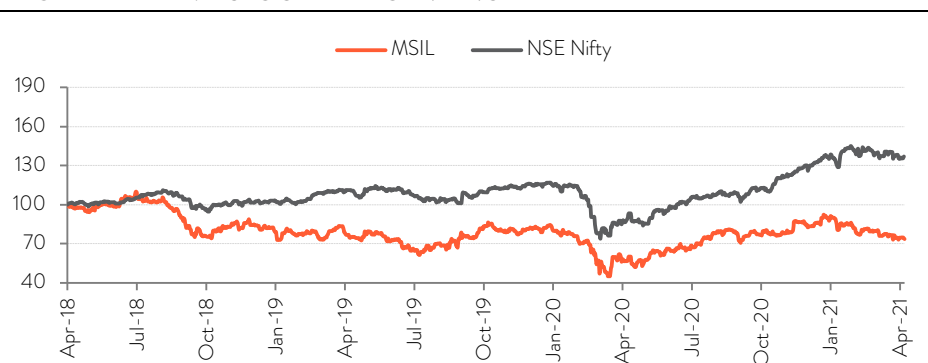
Accordingly, we raise our target P/E multiple from 26x to 30x and upgrade the stock from SELL to BUY with a revised Mar'22 target price of Rs 8,000 (vs. Rs 6,900).

FIG 3 – REVISED ESTIMATES

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Volumes	1,860,000	2,008,800	1,800,000	1,944,000	3.3	3.3
Revenues	937,711	1,043,110	927,746	1,027,015	1.1	1.6
EBITDA	81,071	98,841	88,099	101,657	(8.0)	(2.8)
OPM (%)	8.6	9.5	9.5	9.9	(90) bps	(43) bps
Adj. PAT	66,184	81,184	68,616	80,014	(3.5)	1.5
EPS (Rs)	219.1	268.7	227.1	264.9	(3.5)	1.5

Source: Company, BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Below-expected demand can adversely impact MSIL's performance.
- Increase in prices of raw material can put pressure on operating margin.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	860,203	756,106	703,325	937,711	1,043,110
EBITDA	109,993	73,026	53,453	81,071	98,841
Depreciation	30,189	35,257	30,315	33,451	36,951
EBIT	105,414	71,977	52,602	83,530	102,279
Net interest income/(expenses)	(758)	(1,329)	(1,008)	(800)	(800)
Other income/(expenses)	25,610	34,208	29,464	35,909	40,389
Exceptional items	(16,694)	0	0	0	0
EBT	104,656	70,648	51,594	82,730	101,479
Income taxes	29,650	14,142	9,297	16,546	20,296
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	75,006	56,506	42,297	66,184	81,184
Adjustments	16,694	0	0	0	0
Adjusted net profit	91,700	56,506	42,297	66,184	81,184

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	102,741	78,549	101,681	137,450	128,702
Other current liabilities	24,293	19,484	47,208	33,878	41,266
Provisions	12,973	14,274	7,875	7,875	7,875
Debt funds	22,256	22,860	26,629	26,629	26,629
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	523,496	565,514	622,531
Shareholders' fund	461,415	484,370	525,006	567,024	624,041
Total liabilities and equities	623,678	619,537	708,399	772,856	828,514
Cash and cash eq.	1,789	211	31,981	17,443	16,674
Accounts receivables	23,104	21,270	12,766	18,754	20,862
Inventories	33,257	32,149	30,500	40,322	44,854
Other current assets	15,011	13,547	34,485	34,044	34,782
Investments	365,150	364,676	417,867	479,867	529,867
Net fixed assets	154,078	157,812	152,545	154,094	152,143
CWIP	16,001	13,374	11,923	12,000	13,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(5,640)	(715)	(715)	(715)	(715)
Other assets	20,928	17,213	17,047	17,047	17,047
Total assets	623,678	619,537	708,399	772,856	828,514

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	121,889	91,763	72,612	99,635	118,134
Interest expenses	(758)	(1,329)	(1,008)	(800)	(800)
Non-cash adjustments	(25,610)	(34,208)	(29,464)	(35,909)	(40,389)
Changes in working capital	(20,367)	(19,579)	33,838	7,070	(8,737)
Other operating cash flows	(6,832)	(2,003)	0	0	0
Cash flow from operations	68,322	34,644	75,978	69,996	68,208
Capital expenditures	(45,419)	(36,364)	(23,597)	(35,077)	(36,000)
Change in investments	(12,248)	474	(53,191)	(62,000)	(50,000)
Other investing cash flows	25,610	34,208	29,464	35,909	40,389
Cash flow from investing	(32,057)	(1,682)	(47,324)	(61,168)	(45,611)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	5,030	604	3,769	0	0
Interest expenses	(758)	(1,329)	(1,008)	(800)	(800)
Dividends paid	(24,166)	(24,166)	(13,594)	(24,166)	(24,166)
Other financing cash flows	51	(4,925)	0	0	0
Cash flow from financing	(19,843)	(29,816)	(10,833)	(24,966)	(24,966)
Changes in cash and cash eq.	16,422	3,146	17,821	(16,138)	(2,369)
Closing cash and cash eq.	1,789	211	31,981	17,443	16,674

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	193.0	187.1	140.0	219.1	268.7
Adjusted EPS	193.0	187.1	140.0	219.1	268.7
Dividend per share	80.0	80.0	45.0	80.0	80.0
Book value per share	1,527.5	1,603.5	1,738.0	1,877.1	2,065.8

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	2.3	2.6	2.8	2.1	1.9
EV/EBITDA	18.0	27.0	36.9	24.1	19.8
Adjusted P/E	34.0	35.1	46.9	30.0	24.4
P/BV	4.3	4.1	3.8	3.5	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	55.7	80.0	82.0	80.0	80.0
Interest burden (PBT/EBIT)	99.3	98.2	98.1	99.0	99.2
EBIT margin (EBIT/Revenue)	12.3	9.5	7.5	8.9	9.8
Asset turnover (Revenue/Avg TA)	187.3	152.6	132.8	163.8	167.7
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	13.3	11.9	8.4	12.1	13.6

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	7.8	(12.1)	(7.0)	33.3	11.2
EBITDA	(8.8)	(33.6)	(26.8)	51.7	21.9
Adjusted EPS	(8.9)	(3.1)	(25.1)	56.5	22.7
Profitability & Return ratios (%)					
EBITDA margin	12.8	9.7	7.6	8.6	9.5
EBIT margin	12.3	9.5	7.5	8.9	9.8
Adjusted profit margin	10.7	7.5	6.0	7.1	7.8
Adjusted ROAE	13.3	11.9	8.4	12.1	13.6
ROCE	16.0	11.3	7.9	11.4	12.9
Working capital days (days)					
Receivables	8	11	9	6	7
Inventory	20	22	22	14	15
Payables	65	61	65	64	64
Ratios (x)					
Gross asset turnover	0.3	0.4	0.5	0.4	0.4
Current ratio	0.5	0.6	0.7	0.6	0.7
Net interest coverage ratio	(139.1)	(54.2)	(52.2)	(104.4)	(127.8)
Adjusted debt/equity	0.0	0.0	0.1	0.0	0.0

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

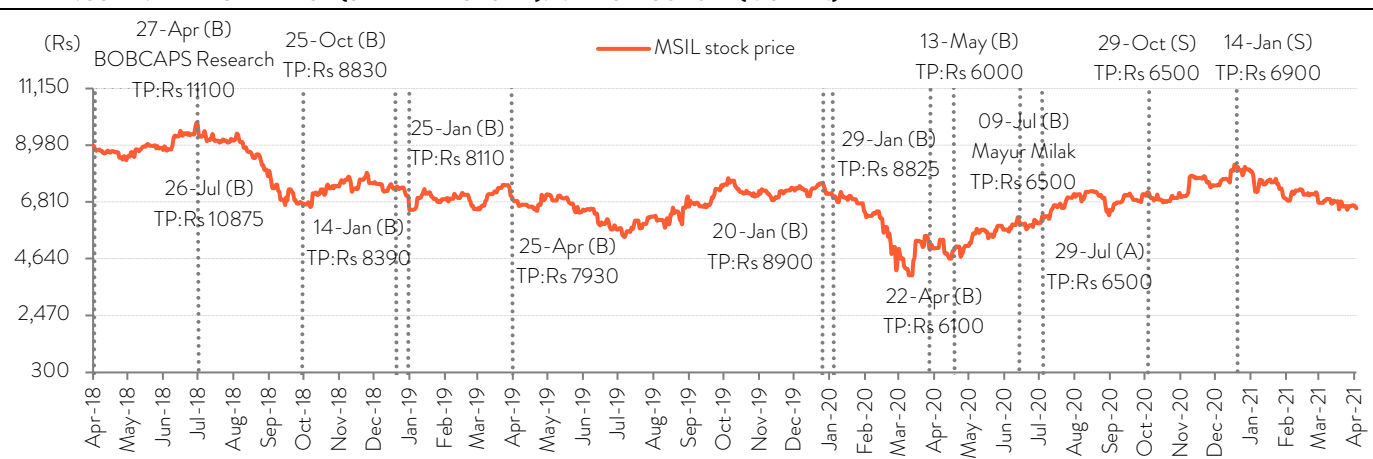
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



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

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