

Weak Performance; Demand uncertainty remains

CMP: Rs 6165

Rating: Neutral

Target Price: Rs 6327

Stock Info

BSE	532500
NSE	MARUTI
Bloomberg	MSIL IN
Reuters	MRTI.NS
Sector	Automobiles
Face Value (Rs)	5
Equity Capital (Rs mn)	1,510
Mkt Cap (Rs mn)	19,18,813
52w H/L (Rs)	7,758 / 4,001
Avg Yearly Vol (in 000')	1327

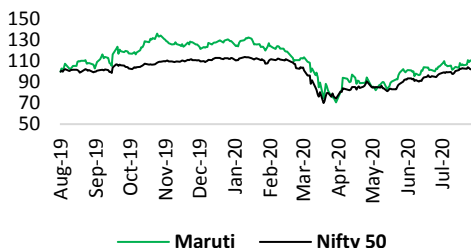
Shareholding Pattern %

(As on June, 2020)

Promoters	56.28
Public & Others	43.72

Stock Performance (%)	3m	6m	12m
Maruti	33.6	-8.9	11.9
Nifty	20.6	-8.3	2.1

Maruti Vs Nifty



Maruti Suzuki (MSIL) loss for the quarter stood at Rs 2,494 Mn during Q1FY21. Standalone revenue stood at Rs 41,065 Mn for Q1FY21 vs Rs.1,97,198 Mn for the Q1FY20 due to decline in volumes by 81% YoY on account of COVID-19 led volumes disruption. However, realizations grew by 9% YoY led by price hikes related to BS VI transition. Company has reported EBITDA loss of Rs 8,634 Mn in Q1FY21, as compared to EBITDA gain of Rs 20,478 Mn in Q1FY20. The company has inventory of 25 days, 80000 units as of 30th June 2020.

Concall highlights

- Demand: The current demand level is 80-90% of pre-covid demand. The bounce back is very encouraging and is reflected in consumer parameters.
- Covid-19 lockdown resumption: 91-92% outlets are open and the range may vary between 80-90% according to time due to varying lockdown dates in different places.
- Retail Financing: Finance penetration is normal as of now and is seen in range of 78-80%.
- Exports: Most of the countries' lockdown is ending now. The management is quite ambitious for exports for the medium term outlook.
- The company's tie-up with Toyota will help in much deeper excess in exports market, especially in African market.
- The company is trying hard to bring down fixed costs and discretionary part was reduced in 1QFY21. Also, the company is looking for localization of input materials and reducing the model cost as well.
- Demand for subscription is increasing in covid period. The company is running a pilot project digitally in Bangalore and Gurugram (manesar). According to management, it could be a significant game changer going forward.
- Production: run rate of 4000+ units per day. Currently, Gujarat plant is running in single shift due to high COVID cases there. By September 2020, 2nd shift in Gujarat is expected to start, post that additional 900 units per day.
- It is difficult to give outlook on demand as of now; it may vary according to fundamentals of economy and market sentiments.

Outlook and valuation

At CMP of Rs 6165, MSIL currently trades at a FY20 P/E of 33x. We have lowered our FY21 estimates due to uncertainty around Covid-19 while upgraded the FY22 estimates as Car buying is a discretionary purchase and affordability and sentiments will play key role in demand recovery. Also shift from public transport and shared mobility towards personal mobility. Initial enquiries indicate that there has been an uptick in mini and entry level hatchback segment. Urban markets have been lagging in sales while rural markets stayed strong, both have been catching up in the last few weeks. Maruti launched subscription based model on pilot basis in Bangaluru and Gurugram and inquiries and conversions are quite encouraging. We believe that Covid-19 could change the demand trends and these emerging trends would work in favour of Maruti's market share gains, owing to strong small car portfolio. We believe that FY22 will be an unusual year and expect sharp recovery. We value Maruti at 27x FY22 EPS of Rs 234 for TP of Rs 6,327 per share. **We maintain our Neutral rating on the stock.**

Q1FY21 result Snapshot

Standalone (INRm)	1QFY21	1QFY20	4QFY20	YoY (%)	QoQ(%)
Net Sales	41,065	1,97,198	1,81,987	-79	-77
- Raw Material	29,364	1,40,913	1,27,914	-79	-77
(% of Net Sales)	72%	71%	70%	100	102
- Staff Expenditure	7,303	8,591	8,194	-15	-11
(% of Net Sales)	18%	4%	5%	408	395
- Other Expenditure	13,032	27,216	30,415	-52	-57
(% of Net Sales)	32%	14%	17%	230	190
Total Expenditure	49,699	1,76,720	1,66,523	-72	-70
EBITDA	-8,634	20,478	15,464	-142	-156
EBITDA Margin (%)	-21%	10%	8%	-31bps	-30bps
Depreciation	7,833	9,186	8,230	-15	-5
EBIT	-16,467	11,292	7,234	-246	-328
Interest	173	547	283	-68	-39
Other Income	13,183	8,364	8,804	58	50
PBT	-3,457	19,109	15,755	-118	-122
Tax	-963	4,754	2,838	-120	-134
Tax Rate (%)	28	25	18	298bps	984bps
Adjusted PAT	-2,494	14,355	12,917	-117	11
Exceptional Items	0	0	0		
Reported PAT	-2,494	14,355	12,917	-117	11
Reported EPS (INR)	-8.3	47.5	42.8		
Volumes (In Nos)	76,599	4,02,594	3,85,025	-81	5
Net Realisation (INR)	5,36,104	4,89,819	4,72,663	9	4
EBITDA / Vehicle (INR)	-1,12,717	50,865	40,164	-322	27

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Volumes (In Nos)	Q1FY21	1QFY20	4QFY20	YoY (%)	QoQ (%)
Domestic	67,004	3,74,481	3,60,428	(82.1)	(81.4)
A: Mini	10,458	57,893	69,372	(81.9)	(84.9)
A: Compact + Super compact	26,696	2,05,178	1,94,687	(87.0)	(86.3)
A: Mid-Size + Exec	553	8,703	5,242	(93.6)	(89.5)
Total cars	37,707	2,71,774	2,69,301	(86.1)	(86.0)
B: UVs	9,764	58,984	50,968	(83.4)	(80.8)
C: Vans	5,691	43,723	40,159	(87.0)	(85.8)
Export	9,572	28,113	24,597	(66.0)	(61.1)
Total Volumes	76,599	4,02,594	3,85,025	(81.0)	(80.1)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Exhibit 1: Quarterly net sales and growth trend

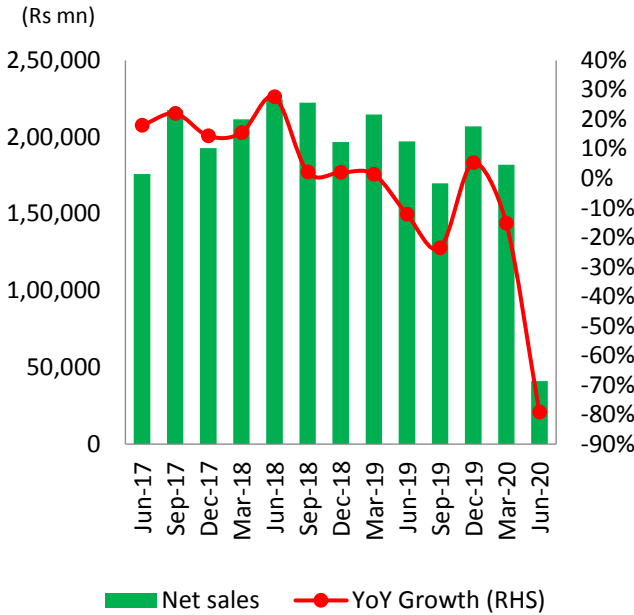


Exhibit 2: realizations and growth trend

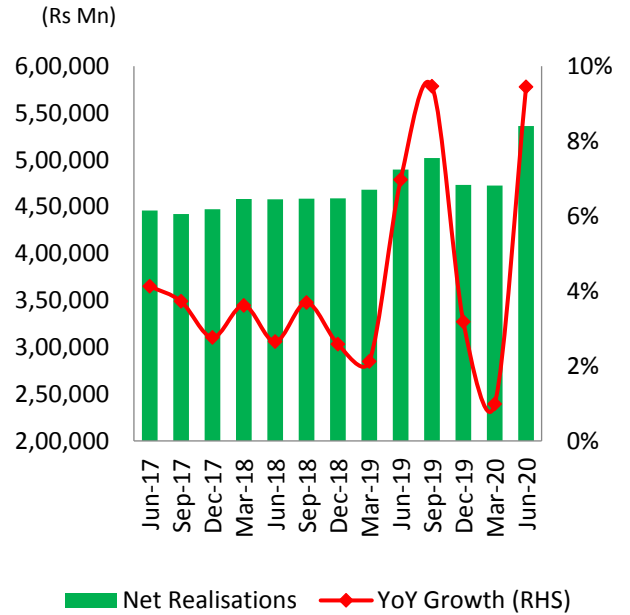


Exhibit 3: Quarterly discount and % of sales trend

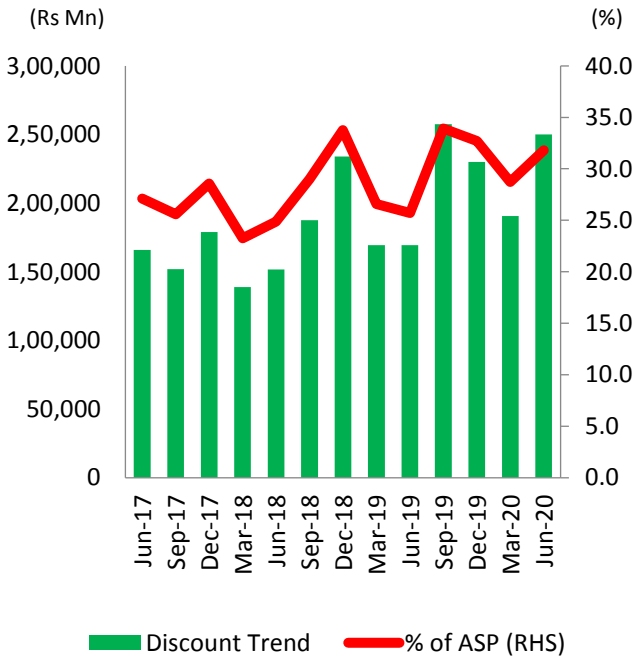
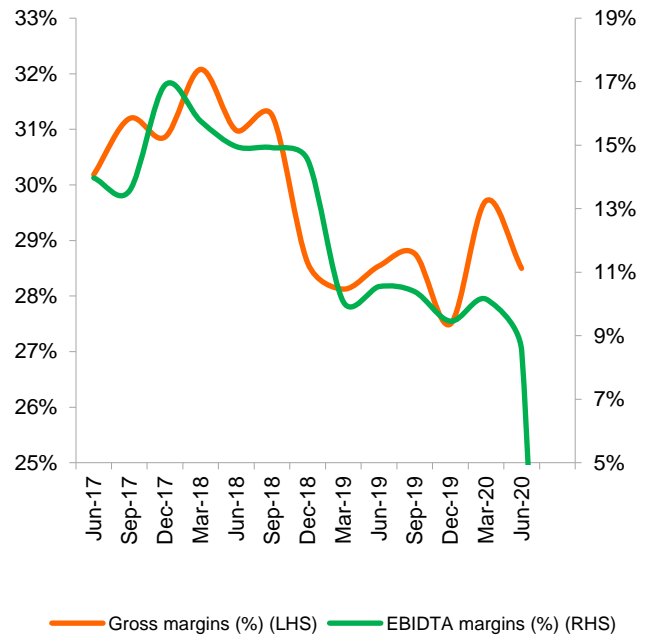


Exhibit 4: Quarterly gross and EBITDA margins trend



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Profit & Loss Statement				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Net sales	8,60,203	7,56,106	6,49,501	7,65,610
Growth, %	7	-14	-15	19
RM expenses	-5,95,485	-5,31,566	-4,75,435	-5,43,583
Employee expenses	-32,549	-33,839	-35,193	-36,952
Other expenses	-1,23,397	-1,18,892	-84,261	-93,531
EBITDA (Core)	1,09,993	73,026	54,613	91,544
Growth, %	-9	-34	-25	68
Margin, %	12.8	9.7	8.4	12.0
Depreciation	-30,189	-35,257	-32,810	-34,781
EBIT	79,805	37,769	21,803	56,762
Growth, %	-14	-53	-42	160
Margin, %	9.3	5.0	3.4	7.4
Interest paid	-758	-1,329	-573	-622
Other Income	25,610	34,208	35,576	36,999
	2.98	4.52	5.48	4.83
Non-recurring Items	0	0	0	0
Pre-tax profit	1,04,657	70,648	56,806	93,140
Tax provided	-29,650	-14,142	-11,361	-22,354
Profit after tax	75,007	56,506	45,445	70,786
Others (Minorities, Associates)	-	-	-	-
Net Profit	75,007	56,506	45,445	70,786
Growth, %	-3	-25	-20	56
Net Profit (adjusted)	75,007	56,506	45,445	70,786

Cash Flow				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Pre-tax profit	1,04,657	70,648	56,806	93,140
Depreciation	30,189	35,257	32,810	34,781
Chg in working capital	-15,164	-27,954	14,226	4,610
Total tax paid	-29,323	-13,748	-11,361	-22,354
CFO	62,280	31,324	57,478	73,800
Capital expenditure	-45,419	-36,722	-13,600	-28,000
Chg in marketable securities	-40,000	-40,000	-40,000	-40,000
Chg in investments	27,752	40,474	-10,000	10,000
CFI	-32,057	-2,040	-28,024	-21,001
Free cash flow	-23,138	-45,398	3,877	5,800
Debt raised/(repaid)	388	-433	-383	-102
Dividend (incl. tax)	-28,455	-20,003	-18,769	-29,235
CFF	-28,825	-21,765	-19,724	-29,959
Net chg in cash	1,398	7,519	9,729	22,840
Opening cash balance	711	1,789	211	19,357
Closing cash balance	1,789	211	19,357	42,198

Balance Sheet				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Cash & bank	1,789	211	19,357	42,198
Marketable securities				
cost	3,49,878	3,49,404	3,99,404	4,29,404
Debtors	23,104	21,270	14,433	17,014
Inventory	33,257	32,149	29,054	33,219
Loans & advances	162	171	174	178
Other current assets	14,851	18,287	18,287	18,287
Total current assets	73,163	72,088	81,307	1,10,895
Investments	15,272	15,272	15,272	15,272
Gross fixed assets	4,11,631	4,50,980	4,62,954	4,89,954
Less: Depreciation	-2,57,553	-2,92,810	-3,25,620	-3,60,401
Add: Capital WIP	16,001	13,374	15,000	16,000
Net fixed assets	1,54,078	1,58,170	1,37,334	1,29,553
Total assets	6,29,318	6,25,521	6,48,317	7,01,124
Current liabilities	1,33,763	1,05,639	1,09,937	1,21,295
Provisions	6,639	7,312	7,312	7,312
Total current liabilities	1,40,402	1,12,951	1,17,249	1,28,607
Non-current liabilities	26,005	27,137	27,137	27,137
Total liabilities	1,66,407	1,40,088	1,44,386	1,55,744
Paid-up capital	1,510	1,510	1,510	1,510
Reserves & surplus	4,59,905	4,82,860	5,01,740	5,43,292
Shareholders' equity	4,61,415	4,84,370	5,03,250	5,44,802
Total equity & liabilities	6,29,318	6,25,521	6,48,317	7,01,124

Ratios				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
EPS (INR)	248	187	150	234
PE (x)	24.8	33.0	41.0	26.3
Price/Book (x)	4.0	3.8	3.7	3.4
EV/EBITDA (x)	13.7	20.7	26.4	15.2
EV/Net sales (x)	1.8	2.1	2.2	1.8
RoE (%)	17	12	9	14
RoCE (%)	23	14	11	17
Fixed Asset turnover (x)	2.1	1.7	1.4	1.6
Dividend Yield (%)	1.3	0.9	0.9	1.3
Receivable (days)	10	11	9	9
Inventory (days)	16	17	18	18
Payable (days)	47	40	49	49
Revenue Growth (%)	7	-14	-15	19
EBIDTA Growth (%)	-9	-34	-25	68
EPS Growth, %	-7	-25	-20	56
Net D/E ratio (x)	(0.8)	(0.7)	(0.8)	(0.9)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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