

In the Slow Lane ; Weak Margin

CMP: INR 7,165

Rating: Reduce

Target Price: INR 6,755

Stock Info

BSE	532500
NSE	MARUTI
Bloomberg	MSIL IN
Reuters	MRTI.NS
Sector	Automobiles
Face Value (INR)	5
Equity Capital (INR mn)	1,510
Mkt Cap (INR mn)	21,64,410
52w H/L (INR)	8,329 / 5,928
Avg Yearly Vol (in 000')	1028

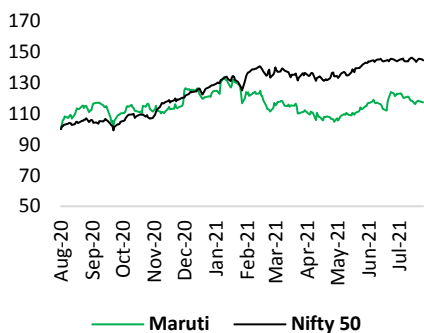
Shareholding Pattern %

(As on June, 2021)

Promoters	56.37
Public & Others	43.63

Stock Performance (%)	3m	6m	12m
Maruti	8.9	-5.5	14.0
Nifty	5.6	13.6	39.0

Maruti Vs Nifty



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Maruti Suzuki (MSIL) has reported revenue above & EBITDA, PAT below our estimates in Q1 FY22. Standalone revenue stood at INR 1,77,707 Mn, against our estimate of INR 1,74,526 Mn registering +333% YoY/-26% QoQ. EBITDA stood at INR 8,211 Mn, against our estimate of INR 13,956 Mn, Registering -195%YoY/-59%QoQ. On the margins front, EBITDA margin flat by 26bps YoY/-4bpsQoQ to 4.6%, against our estimate of 8%. Due to adverse commodity prices and lower non-operating income impacted margin. Standalone PAT saw a decline of 277%YoY/40% QoQ to INR 4,408 Mn against our estimate of INR 9,546 Mn largely impacted due to lower sales volume. Commodity prices increased steeply but the company continued to make efforts to reduce costs. Total Volume was up by 362%YoY/-1% QoQ to 3,53,614 units.

Concall highlights-Q1 FY22

- **Order book:** The company order book stands and 170k units.
- **Inventory:** The channel inventory of 130-135k, about 27 days as per 4QFY21 retails.
- The company has taken small price hikes in July and a price hike of 1.3% in Jan, 1.6% in April and a small increase in July.
- **Employee:** The company employee costs affected due to covid related expenses and wage settlement and increments
- **Capex:** The company expects capex of INR 45000 mn in FY22.
- **Retail sales** in Q1 FY22 was 501k units for industry and around 200k for Maruti and market share decline is led by lower CNG production, higher growth in SUVs and low channel inventory.
- **First Time Buyers:** Share of first time buyers in 1QFY22 decreased from ~46.9% to 45.4% whereas replacement mix started seeing recovery from lows of 4Q FY21.

Outlook and valuation

At CMP of INR 7,165, MSIL currently trading at FY22/FY23 P/E of 43.4x/29.7x, to its EPS of INR 165/241.2. Post 2nd wave of Covid-19 Maruti lost its market share despite picking up of demand as the growth was driven by SUVs and upgrade customers where Maruti has a limited presence. Additionally higher commodity prices has also impacted the margin with limited room for the price hike, which may put margin pressure for the next few quarters. Though we remain optimistic over the short to medium term as may see trend reversal away from shared mobility. **We value Maruti at 28x FY23 EPS of INR 241.2 for the Target Price of INR 6,755 per share. We assign a reduce rating on the stock.**

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	8,60,203	1,09,993	75,007	248.3	12.8	17.1	24.8
FY20	7,56,106	73,026	56,506	187.1	9.7	11.9	38.3
FY21	7,03,325	53,453	42,297	140.0	7.6	8.5	51.2
FY22E	7,80,316	59,898	49,857	165.0	7.7	9.7	43.4
FY23E	8,78,352	86,909	72,874	241.2	9.9	13.8	29.7

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

Q1FY22 result Snapshot

Standalone (INRm)	Q1 FY22	Q4FY21	Q1FY21	YoY (%)	QoQ(%)
Net Sales	1,77,707	2,40,237	41,065	333	-26
- Raw Material	1,32,905	1,77,509	29,364	353	-25
(% of Net Sales)	74.8%	73.9%	71.5%	5	1
- Staff Expenditure	10,643	9,003	7,303	46	18
(% of Net Sales)	6.0%	3.7%	17.8%	-66	60
- Other Expenditure	25,948	33,814	13,032	99	-23
(% of Net Sales)	14.6%	14.1%	31.7%	-54	4
Total Expenditure	1,69,496	2,20,326	49,699	241	-23
EBITDA	8,211	19,911	-8,634	-195	-59
EBITDA Margin (%)	4.6%	8.3%	-21.0%	26bps	-4bps
Depreciation	7,432	7,410	7,833	-5	0
EBIT	779	12,501	-16,467	-105	-94
Interest	222	324	173	28	-31
Other Income	5,078	898	13,183	-61	465
PBT	5,635	13,075	-3,457	-263	-57
Tax	1,227	1,414	-963	-227	-13
Tax Rate (%)	21.8%	10.8%	27.9%	-6bps	11bps
Adjusted PAT	4,408	11,661	-2,494	-277	-40
Exceptional Items	0	0	0		
Reported PAT	4,408	11,661	-2,494	-277	-40
Reported EPS (INR)	14.59	38.60	-8.26		
Volumes (In Nos)	353614	492235	76,599	362	-1
Net Realisation (INR)	5,02,545	4,88,053	5,36,104	3	3
EBITDA / Vehicle (INR)	23,220	40,450	-1,12,717	-121	-10

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

Volumes (In Nos)	1QFY22	4QFY21	1QFY21	YoY (%)	QoQ (%)
Domestic	3,08,095	4,56,707	53,162	(32.5)	479.5
A: Mini	47,240	73,765	10,458	(36.0)	351.7
A: Compact + Super compact	1,61,510	2,39,653	26,696	(32.6)	505.0
A: Mid-Size + Exec	2,518	4,485	553	(43.9)	355.3
Total cars	2,11,268	3,17,903	37,707	(33.5)	460.3
B: UVs	60,011	76,945	9,764	(22.0)	514.6
C: Vans	36,816	61,859	5,691	(40.5)	546.9
Export	45,519	35,528	9,572	28.1	375.5
Total Volumes	3,53,614	4,92,235	62,734	(28.2)	463.7

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

Other Highlights from the Conference Call

- **Inquiries and bookings:** The management mentioned that Inquiries and bookings are at similar level and 80-85% against in Q4 and 20% higher and similar to June levels respectively.
- **Demand:** Customer CNG preference continues to increase and during the quarter the company faced supply-side issues including global semi-conductor shortages. The company is committed to working on all powertrain techs like ICE, Hybrid, BEV, CNG, Biofuel.
- The company closely collaborating with supplier partner and company was able to effectively manage supply issues during the quarter 3rd plant in SME annual production 250000 units for mid operational.
- **Commodity Price:** The Company expects commodity Price to continue in the current quarter and to stabilize in the 2nd half of the year..
- **Cost optimization Program:** Lower the sales promotion and advertisement expenses to limit some of the adverse and the steep commodity price increase and increase in selling prices carefully.
- **Discounts** stood at INR 14000/unit.

Profit & Loss Statement					
Particulars (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	8,60,203	7,56,106	7,03,325	7,80,316	8,78,352
Growth, %	7	-14	-7	11	13
RM expenses	-5,95,485	-5,31,566	-5,08,172	-5,69,631	-6,13,968
Employee expenses	-32,549	-33,839	-34,029	-39,133	-41,090
Other expenses	-1,23,397	-1,18,892	-1,07,671	-1,11,654	-1,36,385
EBITDA (Core)	1,09,993	73,026	53,453	59,898	86,909
Growth, %	-9	-34	-27	12	45
Margin, %	12.8	9.7	7.6	7.7	9.9
Depreciation	-30,189	-35,257	-30,315	-31,732	-34,657
EBIT	79,805	37,769	23,138	28,166	52,252
Growth, %	-14	-53	-39	22	86
Margin, %	9.3	5.0	3.3	3.6	5.9
Interest paid	-758	-1,329	-1,008	-1,077	-1,178
Other Income	25,610	34,208	29,464	36,830	42,355
	2.98	4.52	4.19	4.72	4.82
Non-recurring Items	0	0	0	0	0
Pre-tax profit	1,04,657	70,648	51,594	63,919	93,429
Tax provided	-29,650	-14,142	-9,297	-14,062	-20,554
Profit after tax	75,007	56,506	42,297	49,857	72,874
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	75,007	56,506	42,297	49,857	72,874
Growth, %	-3	-25	-25	18	46
Net Profit (adjusted)	75,007	56,506	42,297	49,857	72,874

Balance Sheet					
Particulars (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Cash & bank	1,789	211	30,364	31,207	33,861
Marketable securities cost	3,49,878	3,49,404	4,02,595	4,11,595	4,22,595
Debtors	23,104	19,749	12,766	14,163	15,943
Inventory	33,257	32,149	30,500	34,189	36,850
Loans & advances	162	171	232	237	241
Other current assets	14,851	19,808	27,250	27,250	27,250
Total current assets	73,163	72,088	1,01,112	1,07,046	1,14,145
Investments	15,272	15,272	15,272	15,272	15,272
Gross fixed assets	4,11,631	4,50,622	4,65,678	5,10,678	5,55,678
Less: Depreciation	-2,57,553	-2,92,810	-3,23,125	-3,54,856	-3,89,513
Add: Capital WIP	16,001	13,374	11,923	12,000	12,000
Net fixed assets	1,54,078	1,57,812	1,42,553	1,55,822	1,66,165
Total assets	6,29,318	6,24,971	6,92,525	7,20,317	7,48,760
Current liabilities	1,33,763	1,05,089	1,48,763	1,57,908	1,66,529
Provisions	6,639	7,312	7,863	7,863	7,863
Total current liabilities	1,40,402	1,12,401	1,56,626	1,65,771	1,74,392
Non-current liabilities	26,005	27,137	25,139	30,226	30,225
Total liabilities	1,66,407	1,39,538	1,81,765	1,95,996	2,04,616
Paid-up capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	4,59,905	4,82,860	5,04,362	5,17,923	5,37,746
Shareholders' equity	4,61,415	4,84,370	5,05,872	5,19,433	5,39,256
Total equity & liabilities	6,29,318	6,24,971	6,92,525	7,20,317	7,48,760

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

Cash Flow					
Particulars (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Pre-tax profit	1,04,657	70,648	51,594	63,919	93,429
Depreciation	30,189	35,257	30,315	31,732	34,657
Chg in working capital	-15,164	-28,504	45,354	4,054	4,176
Total tax paid	-29,323	-13,748	-11,556	-14,062	-20,554
CFO	62,280	30,774	87,251	54,975	70,530
Capital expenditure	-45,419	-36,364	-13,605	-45,077	-45,000
Chg in investments	27,752	40,474	-13,191	31,000	29,000
CFI	-32,057	-1,682	-37,332	-17,247	-13,646
Free cash flow	-23,138	-45,590	33,646	-30,102	-14,470
Dividend (incl. tax)	-28,455	-21,377	-29,946	-36,296	-53,053
CFF	-28,825	-23,139	-27,129	-37,373	-54,230
Net chg in cash	1,398	5,953	22,789	355	2,654
Opening cash balance	711	1,789	211	30,364	31,207
Closing cash balance	1,789	211	30,364	31,207	33,861

Ratios					
Particulars (INR mn)	FY19	FY20	FY21	FY22E	FY23E
EPS (INR)	248.3	187.1	140.0	165.0	241.2
PE (x)	24.8	38.3	51.2	43.4	29.7
Price/Book (x)	4.0	4.5	4.3	4.2	4.0
EV/EBITDA (x)	13.7	24.9	32.5	28.8	19.7
EV/Net sales (x)	1.8	2.5	2.5	2.2	2.0
RoE (%)	17	12	9	10	14
RoCE (%)	23	14	10	12	17
Fixed Asset turnover (x)	2.1	1.7	1.5	1.5	1.6
Dividend Yield (%)	1.3	0.8	1.2	1.5	2.2
Receivable (days)	10	10	7	7	7
Inventory (days)	16	17	17	17	17
Payable (days)	47	40	57	56	55
Revenue Growth (%)	7	-14	-7	11	13
EBIDTA Growth (%)	-9	-34	-27	12	45
EPS Growth, %	-7	-25	-25	18	35
Net D/E ratio (x)	(0.8)	(0.7)	(0.8)	(0.8)	(0.8)

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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