

CMP: Rs 5805

Rating: NEUTRAL

Target: Rs 6004

(NR-Not Rated)

Stock Info

INDEX	
BSE	532500
NSE	MARUTI
Bloomberg	MSIL IN
Reuters	MRTI.NS
Sector	Automobiles
Face Value (Rs)	5
Equity Capital (Rs mn)	1510
Mkt Cap (Rs bn)	2120
52w H/L (Rs)	9833 / 5685
Avg Weekly Vol (BSE+NSE)	193,355

Shareholding Pattern

	%
(As on March, 2019)	
Promoters	56.2
Public & Others	43.8

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
MARUTI	5.9	2.6	-22.8
SENSEX	7.7	11.6	5.4

Source: ACE Equity, Arihant Research

MARUTI v/s SENSEX



Source: ACE Equity, Arihant Research

Result Highlights

Maruti (MSIL) Q1FY20 results were in-line with our est at the operating level as net sales stood at Rs 197bn (-12.2% YoY / -8.1% QoQ). Realizations were at Rs 490k (+7% YoY / +4.6% QoQ) on price hikes taken for safety and BS VI models. Gross margins at 28.5% (-244bps YoY/ +42bps QoQ) were cushioned by soft commodity prices and stable currency. In Q1, the overall PV market remained subdued. The weak rural retail sales coupled with weak footfalls led to subdued show. The EBITDA margin stood at 10.4% (-450bps YoY/-16bps QoQ) and were impacted by higher staff costs (+12% YoY). On the concall, management attributed the softness in demand to weak sentiments which was aggravated primarily by the weak rural demand. However, the management pins its hopes on the upcoming festive season for demand improvement.

Concall highlights

- **Demand outlook** – Near term demand remains subdued led by sluggish rural demand (-17% YoY) coupled with fall in inquiries. The management is confident to withstand the current challenges through new product launch and incentives from the govt. Further, demand could see improvement with lower costs of financing. Rural markets were impacted by the delay in monsoons.
- **Margins** were cushioned by 40bps by the softening of commodity prices coupled with stable forex scenario whereas the BS VI and safety costs impacted by 60bps.
- The management indicated that **channel inventory** stood at 1 month whereas the inventory at factory level stood at 4-5 days.
- **CNG** is being well accepted in the shared mobility space and the overall CNG share stood at 6% whereas in select markets with CNG, the share was at 22%.
- Average **discounts** during Q4 stood at Rs16k (up by 1k QoQ).
- The production from the **Gujarat** plant stood at 96k with utilizations at 80%.
- **Royalty** stood at 5.2% of sales and 45% of models have shifted to new royalty system. The management expects entire fleet to shift to BS VI by FY22.
- **Spare parts** revenue stood at Rs 14bn.
- The management highlighted that demand is strong for petrol vs the diesel in Q1. MSIL's petrol mix improved to 78% in Q1FY20 (vs 71% in Q1FY19)
- MSIL is contemplating a **1.5litre diesel engine** for UVs whereas the diesel price hikes in smaller vehicles make it unviable.
- Financing penetration stood at 39% in Q1FY20.

Outlook and valuation – EPS cuts by 15-18% over FY20-21e

We believe, that the near term demand for the industry remains extremely challenging for the PV industry and volume recovery for MSIL remains an uphill task. Further, the pain is aggravated in the passenger cars where MSIL has a leadership with >60% mkt share. We therefore remain cautious on MSIL and would await for volumes to recover.

However, as the industry recovers over the medium term, MSIL will be well positioned to counter numerous technology and safety related regulations and gain market share backed by its strong product portfolio. The recent price correction has been on account of muted volume and earnings outlook over FY20-21e. We reduce our volume/EBITDA/PAT estimates by 12%/16%/18% for FY20-21e to factor in the weak demand scenario. We revise our rating to NEUTRAL (HOLD earlier) on the stock and value it at 21x FY21E for a target price of Rs 6,004 (vs Rs 7,352 earlier) with an upside of 3%.

Quarterly result summary

Standalone (INRm)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (%)	QoQ (%)
Net Sales	224,594	222,332	196,683	214,594	197,198	(12.2)	(8.1)
- Raw Material	155,020	152,849	140,437	154,236	140,913	(9.1)	(8.6)
(% of Net Sales)	69.0	68.7	71.4	71.9	71.5	244	(42)
- Staff Expenditure	7,652	7,917	8,331	8,169	8,591	12.3	5.2
(% of Net Sales)	3.4	3.6	4.2	3.8	4.4	95	55
- Other Expenditure	28,411	29,253	28,124	29,555	27,216	(4.2)	(7.9)
(% of Net Sales)	12.6	13.2	14.3	13.8	13.8	115	3
Total Expenditure	191,083	190,019	176,892	191,960	176,720	(7.5)	(7.9)
EBITDA	33,511	32,313	19,791	22,634	20,478	(38.9)	(9.5)
EBITDA Margin (%)	14.9	14.5	10.1	10.5	10.4	(454)	(16)
Depreciation	7,198	7,212	7,677	8,102	9,186	27.6	13.4
EBIT	26,313	25,101	12,114	14,532	11,292	(57.1)	(22.3)
Interest	207	257	206	88	547	164.3	521.6
Other Income	2,718	5,266	9,173	8,677	8,364	207.7	(3.6)
PBT	28,824	30,110	21,081	23,121	19,109	(33.7)	(17.4)
Tax	9,071	9,706	5,708	5,165	4,754	(47.6)	(8.0)
Tax Rate (%)	31.5	32.2	27.1	22.3	24.9	(659)	254
Adjusted PAT	19,753	20,404	15,373	17,956	14,355	(27.3)	(20.1)
Exceptional Items	0	2,000	(480)	0	0	NA	NA
Reported PAT	19,753	22,404	14,893	17,956	14,355	(27.3)	(20.1)
Reported EPS (INR)	65.39	74.17	49.30	59.44	47.52	(27.3)	(20.1)
Volumes (In Nos)	490,479	484,751	428,643	458,479	402,594	(17.9)	(12.2)
Net Realisation (INR)	457,907	458,652	458,850	468,056	489,819	7.0	4.6
EBITDA / Vehicle (INR)	68,323	66,659	46,171	49,368	50,865	(25.6)	3.0

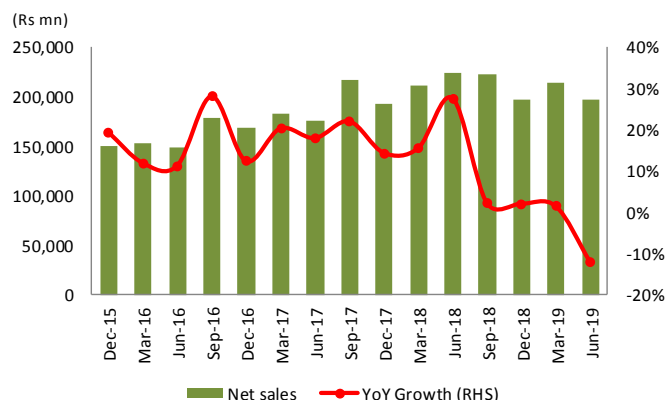
Source: Company, Arianth Capital Markets

Volumes (In Nos)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (%)	QoQ (%)
Domestic	463,840	455,303	405,597	428,863	374,481	(19.3)	(12.7)
A: Mini	105,039	108,576	90,450	74,985	57,893	(44.9)	(22.8)
A: Compact + Super compact	232,667	219,748	188,656	220,733	205,178	(11.8)	(7.0)
A: Mid-Size + Exec	10,719	13,296	12,464	9,690	8,703	(18.8)	(10.2)
Total cars	348,425	341,620	291,570	305,408	271,774	(22.0)	(11.0)
B: UVs	65,754	64,115	64,501	69,827	58,984	(10.3)	(15.5)
C: Vans	49,661	49,568	49,526	53,628	43,723	(12.0)	(18.5)
Export	26,639	29,448	23,046	29,616	28,113	5.5	(5.1)
Total Volumes	490,479	484,751	428,643	458,479	402,594	(17.9)	(12.2)

Source: Company, Arianth Capital Markets

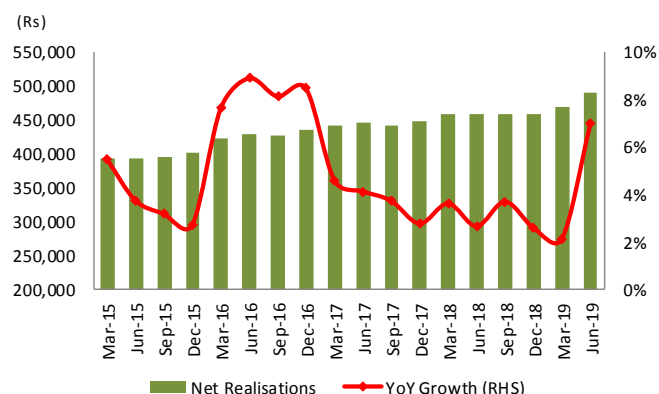
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Exhibit 1: Quarterly revenue and growth trend



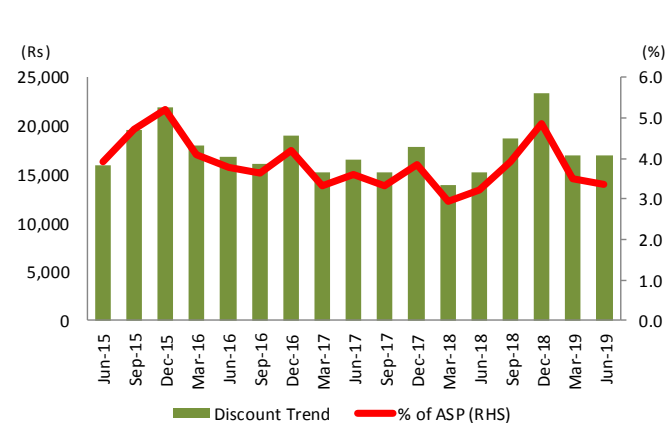
Source: Company, Arianth Capital Markets

Exhibit 2: Quarterly realizations and growth trend



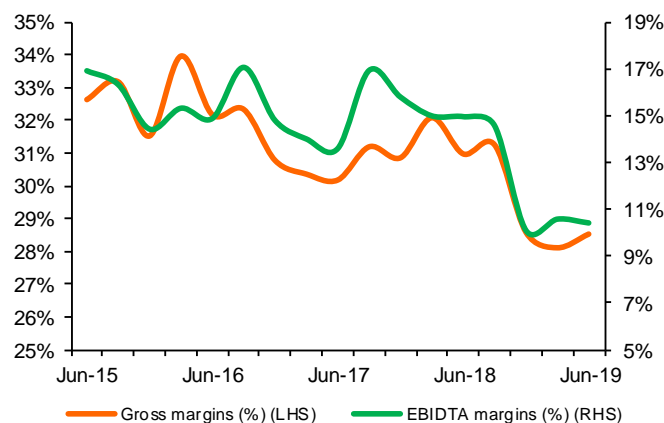
Source: Company, Arianth Capital Markets

Exhibit 3: Quarterly discount and % of sales trend



Source: Company, Arianth Capital Markets

Exhibit 4: Quarterly gross and EBITDA margins trend



Source: Company, Arianth Capital Markets

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Profit & Loss Statement

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	680,646	797,627	860,205	825,028	919,710
Growth, %	19	17	7	(4)	12
RM expenses	-467,316	-549,750	-602,542	-570,920	-633,680
Employee expenses	-23,310	-28,338	-32,549	-35,804	-40,100
Other expenses	-86,205	-98,924	-115,119	-117,922	-121,113
EBITDA (Core)	103,815	120,615	109,995	100,382	124,816
Growth, %	17	16	(9)	(9)	24
Margin, %	15.3	15.1	12.8	12.2	13.6
Depreciation	-26,021	-27,579	-30,189	-20,798	-35,976
EBIT	77,794	93,036	79,807	79,585	88,840
Growth, %	28	20	(14)	(0)	12
Margin, %	11.4	11.7	9.3	9.6	9.7
Interest paid	-1,319	-178	-758	-530	-573
Other Income	22,798	20,455	25,610	32,012	38,735
Non-recurring Items	0	(3,285)	0	0	0
Pre-tax profit	99,273	113,313	104,658	111,067	127,001
Tax provided	-26,036	-32,816	-29,650	-35,541	-40,640
Profit after tax	73,237	80,497	75,008	75,525	86,361
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	73,237	77,212	75,008	75,525	86,361
Growth, %	36	5	(3)	1	14
Net Profit (adjusted)	73,237	80,497	75,008	75,525	86,361

Source: Company, Arianth Capital Markets

Balance Sheet

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & bank	131	711	1,789	3,426	10,848
Marketable securities	267,012	337,630	354,952	409,952	464,952
Debtors	11,992	14,618	23,104	18,334	20,438
Inventory	32,622	31,608	33,257	34,890	38,725
Loans & advances	28	32	160	176	194
Other current assets	37,461	38,981	14,851	14,851	14,851
Total current assets	82,234	85,950	73,161	71,676	85,056
Investments	15,272	15,272	15,272	15,272	15,272
Gross fixed assets	311,264	360,954	407,120	433,454	465,954
Less: Depreciation	-199,785	-227,364	-257,553	-278,351	-314,327
Add: Capital WIP	33,937	21,259	16,001	16,001	16,001
Net fixed assets	111,478	133,590	149,567	155,104	151,627
Total assets	509,933	593,701	608,953	668,005	732,908
Current liabilities	134,037	163,566	133,763	142,387	155,684
Provisions	4,709	5,865	6,639	7,303	8,033
Total current liabilities	138,746	169,431	140,402	149,690	163,718
Non-current liabilities	4,640	5,589	5,640	5,640	5,640
Total liabilities	143,386	175,020	146,042	155,330	169,358
Paid-up capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	360,201	416,063	459,905	510,364	561,360
Shareholders' equity	361,711	417,573	461,415	511,874	562,870
Total equity & liabilities	509,933	593,701	608,953	668,005	732,908

Source: Company, Arianth Capital Markets

Cash Flow

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Pre-tax profit	99,273	110,028	104,658	111,067	127,001
Depreciation	26,021	27,579	30,189	20,798	35,976
Chg in working capital	23,320	27,549	-15,162	12,410	8,070
Total tax paid	-26,036	-32,816	-29,323	-33,320	-40,640
CFO	119,883	119,927	62,284	79,472	92,246
Capital expenditure	-36,267	-37,013	-40,908	-26,334	-32,500
Chg in marketable securities	-40,000	-40,000	-40,000	-40,000	-40,000
Chg in investments	-42,962	-30,618	22,678	-15,000	-15,000
CFI	-96,431	-87,176	-32,620	-49,322	-48,765
Free cash flow	43,616	42,914	-18,623	13,138	19,746
Debt raised/(repaid)	4,062	-3,728	388	-695	-120
Dividend (incl. tax)	-26,454	-28,265	-28,215	-27,289	-35,365
CFF	-23,712	-32,171	-28,585	-28,515	-36,058
Net chg in cash	(260)	580	1,080	1,635	7,423
Opening cash balance	391	131	711	1,789	3,426
Closing cash balance	131	711	1,789	3,426	10,848

Source: Company, Arianth Capital Markets

Ratios

YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (INR)	242	266	248	257	286
PER (x)	23.9	21.8	23.4	22.6	20.3
Price/Book (x)	4.8	4.2	3.8	3.4	3.1
EV/EBITDA (x)	14.4	11.7	12.7	13.4	10.2
EV/Net sales (x)	2.2	1.8	1.7	1.7	1.4
RoE (%)	22	21	17	16	16
RoCE (%)	30	29	24	23	23
Fixed Asset turnover (x)	2.2	2.2	2.1	1.9	2.0
Dividend Yield (%)	1.3	1.4	1.4	1.3	1.7
Receivable (days)	7	7	10	8	8
Inventory (days)	21	17	16	18	18
Payable (days)	53	57	47	52	53
Revenue Growth (%)	19	17	7	(4)	12
EBITDA Growth (%)	17	16	(9)	(9)	24
EPS Growth, %	36	10	(7)	4	11
Net D/E ratio (x)	(0.8)	(0.9)	(0.8)	(0.8)	(0.8)

Source: Company, Arianth Capital Markets

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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%

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