

In the Slow Lane ; Weak Margin

CMP: INR 7,356

Rating: Hold

Target Price: INR 7,832

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)	22,22,170
52w H/L (INR)	8,329 / 6,400
Avg Yearly Vol (in 000')	889

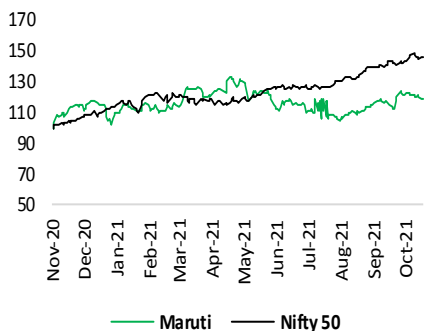
Shareholding Pattern %

(As on Sep, 2021)

Promoters	56.37
Public & Others	43.63

Stock Performance (%)	1m	3m	12m
Maruti	-0.6	1.6	2.76
Nifty	1.9	15.6	53.1

Maruti Vs Nifty



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Maruti Suzuki (MSIL) has reported revenue above, EBITDA in-line and PAT below our estimates in Q2FY22.

- **Standalone revenue stood at INR 192978 Mn, against our estimate of INR 191381 Mn registering +10% YoY/10% QoQ.**
- **EBITDA stood at INR 8549 Mn, against our estimate of INR 9375 Mn, Registering a de-growth of 56%YoY/4%QoQ.**
- **On the margins front, EBITDA margin contraction by 6bps YoY and flat on QoQ to 4.16%, against our estimate of 4.9%. Due to adverse commodity prices and lower capacity utilization as reasons for margin cut.**
- **Standalone PAT saw a decline of 65%YoY/+8% QoQ to INR 4,753 Mn against our estimate of INR 7,508 Mn largely impacted by lower sales volume due to electronic component shortages, leading to lower capacity utilization.**
- **EPS stood at INR 13.56 in Q2FY22 against INR 45.4 in Q2 FY21 (INR 14.59 in Q1 FY22).**
- **Total Volume was up by 7.3%QoQ/3.5% YoY to 3,79,541 units.**

Outlook and valuation

At CMP of INR 7,356, MSIL currently trading at P/E of 30.4x/20.6, to its FY23E/FY24E EPS of INR 241.8/356.0. Maruti Q2FY22 was largely impacted by lower sales volume due to electronic component shortages, leading to lower capacity utilization.

However, Exports sales were the highest ever in 1HFY22. Production has improved in October and we believe will improve going forward. Semiconductor shortages are expected to normalize gradually in 2H FY22. Though we remain optimistic over the short to medium term as we may see trend reversal away from shared mobility.

We value Maruti at 22x FY23 EPS of INR 356 for the Target Price of INR 7,832 per share. We assign a Hold rating on the stock.

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY20	756,106	73,026	56,506	187.1	9.66	11.95	39.33
FY21	703,325	53,453	42,297	140.0	7.60	8.54	52.54
FY22E	793,891	48,805	36,367	120.4	6.15	7.11	61.10
FY23E	984,349	97,149	73,058	241.8	9.87	13.79	30.42
FY24E	1,091,567	115,214	89,672	356.0	10.55	16.03	20.66

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

Q2FY22 Highlights from the Conference Call

- New plant in Gujarat came online in Apr'21 and has been charged as depreciation now. New plant depreciation would be ~INR 500cr a year.
- **Exports** sales were the highest ever in 1HFY22. 1HFY22 export volumes were 104,927 against 32,083 in 1HFY21. Overall volumes during the quarter were 379,541 units against 393,130 units last year.
- Rolled out Maruti Smart Finance during the quarter and have already financed 1lac loans to customers. It's an industry-first program
- Continued to face semiconductor shortages. Estimated 116,000 vehicles could not be produced on the back of this shortage. It had more than 200,000 pending customer orders at the end of the quarter. Inquire and bookings have shown improvement, however, demand sentiment was impacted due to 2nd wave of Covid-19.
- Vehicle penetration in rural markets has increased to 43%. CNG Vehicle penetration to overall sales stands at 17.8% vs. 11.2% last year. CNG Vehicles sales over the years: FY18 - ~75k; FY19 - ~105k; FY20 - ~110k; FY21 - ~158k and it is projecting ~300k for FY22.
- **RM Basket and Commodity inflation:** Aluminum, Steel and other precious metals continued to rise in Q2FY22. Material costs / Sales have gone up by ~6.4% despite the price increases. RM prices increased by 250bps sequentially and it took 1.9% average price increases across categories in the quarter.
- Expects more cost pressure in the coming quarters. However, if volumes improve, there will be some benefit. Seen some softening of prices in Q2 and the impact of the same would be reflected in Q3. Prices for Aluminum and Steel, however, continue to rise. Raised prices in Sep'21 and the impact would be seen in Q3.
- **Dealer Inventory:** 60k cars including commercial vehicles. Demand remains uncertain and cannot comment on production and sales for 2H FY22. Depending upon supply chain problems to normalize.
- **Fuel price increases:** Demand has severely impacted ICE. However, CNG volumes have increased during the quarter. Directionally, this trend will continue and would help Maruti on basis of its mix.
- Royalty for the quarter was 3.5% at INR 670cr. Discounts were at INR 18,567 in Q2FY22 against INR 13,911 in Q1FY22 and INR 17,310 in Q2FY21.
- **Exports:** Half of the volumes are from Africa and 1/3rd s coming from South Africa alone. Products like Jimny have done well.
- For Maruti, plans to look out for the SUV segment as its market share has improved significantly in the last 10years.
- **Customer mix:** First-time buyer has remained steady ~46%; Replacement buying has come down to 19.6%; Additional car buyers have come up to 32.5%. Avg. age has come down to 38.5. Seen a drop in salaried customers and business customers in general.15) Capex: FY22 INR 6,7000mn of which INR 1,5000mn has been spent in the 1st half.
- Gujarat production: Volumes of 120k in Q2 and 96k in Q1.
- Production has improved in October and will improve further in November. Semiconductor shortages are expected to normalize gradually in 2H FY22.
- Retail volumes for Q2FY22 stood at 385,000.

Q2FY22 result Snapshot

Standalone (INRm)	Q2FY22	Q1 FY22	Q2FY21	YoY (%)	QoQ(%)
Net Sales	2,05,389.00	1,77,707	1,87,445	10	16
- Raw Material	155770	1,32,905	1,31,143	19	17
(% of Net Sales)	75.8%	74.8%	70%	8	1
- Staff Expenditure	9622	10,643	8,268	16	-10
(% of Net Sales)	4.7%	6.0%	4%	6	-22
- Other Expenditure	31448	25,948	28,698	10	21
(% of Net Sales)	15.3%	14.6%	15%	0	5
Total Expenditure	1,96,840	1,69,496	1,68,109	17	16
EBITDA	8,549	8,211	19,336	-56	4
EBITDA Margin (%)	4.16%	4.6%	10.3%	-6bps	0bps
Depreciation	7561	7,432	7,659	-1	2
EBIT	988	779	11,677	-92	27
Interest	225	222	283	-20	1
Other Income	5227	5,078	6,025	-13	3
PBT	5,990	5,635	17,478	-66	6
Tax	1237	1,227	3,762	-67	1
Tax Rate (%)	20.7%	21.8%	22%	-1bps	-1bps
Adjusted PAT	4,753	4,408	13,716	-65	8
Exceptional Items	0	0	0		0
Reported PAT	4,753	4,408	13,716	-65	8
Reported EPS (INR)	13.59	14.59	45.4		-7
Volumes (In Nos)	379541	353614	3,93,130	-3	7
Net Realisation (INR)	5,41,151	5,02,545	4,76,802	13	8
EBITDA / Vehicle (INR)	22,525	23,220	49,185	-54	-3

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

Volumes (In Nos)	2QFY22	1QFY22	2QFY21	YoY (%)	QoQ (%)
Domestic	3,20,133	3,08,095	3,70,619	(13.6)	3.9
A: Mini	55,082	47,240	64,213	(14.2)	16.6
A: Compact + Super compact	1,36,736	1,61,510	1,97,698	(30.8)	(15.3)
A: Mid-Size + Exec	4,577	2,518	4,060	12.7	81.8
Total cars	1,96,395	2,11,268	2,65,971	(26.2)	(7.0)
B: UVs	75,068	60,011	63,906	17.5	25.1
C: Vans	48,670	36,816	40,742	19.5	32.2
Export	59,408	45,519	22,511	163.9	30.5
Total Volumes	3,79,541	3,53,614	3,93,130	(3.5)	7.3

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

Profit & Loss Statement					
Particulars (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Net sales	756,106	703,325	793,891	984,349	1,091,567
Growth, %	(14)	(7)	13	25	11
RM expenses	-531,566	-508,172	-591,449	-693,966	-763,005
Employee expenses	-33,839	-34,029	-40,835	-44,918	-49,410
Other expenses	-118,892	-107,671	-112,803	-148,316	-163,937
EBITDA (Core)	73,026	53,453	48,805	97,149	115,214
Growth, %	(34)	(27)	(9)	99	19
Margin, %	9.7	7.6	6.1	9.9	10.6
Depreciation	-35,257	-30,315	-32,219	-34,452	-33,862
EBIT	37,769	23,138	16,586	62,697	81,352
Growth, %	(53)	(39)	(28)	278	30
Margin, %	5.0	3.3	2.1	6.4	7.5
Interest paid	-1,329	-1,008	-1,145	-1,571	-1,865
Other Income	34,208	29,464	32,410	35,003	38,504
	4.52	4.19	4.08	3.56	3.53
Non-recurring Items	0	0	0	0	0
Pre-tax profit	70,648	51,594	47,851	96,129	117,990
Tax provided	-14,142	-9,297	-11,484	-23,071	-28,318
Profit after tax	56,506	42,297	36,367	73,058	89,672
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	56,506	42,297	36,367	73,058	89,672
Growth, %	(25)	(25)	(14)	101	23
Net Profit (adjusted)	56,506	42,297	36,367	73,058	89,672

Balance Sheet				
Particulars (INR mn)	FY21	FY22E	FY23E	FY24E
Cash & bank	30,364	32,186	37,145	47,020
Marketable securities cost	402,595	404,595	412,595	417,595
Debtors	12,766	13,232	16,406	18,193
Inventory	30,500	32,858	38,554	42,389
Loans & advances	232	237	241	246
Other current assets	27,250	27,250	27,250	27,250
Total current assets	101,112	105,762	119,596	135,098
Investments	15,272	15,272	15,272	15,272
Gross fixed assets	465,678	525,678	585,678	645,678
Less: Depreciation	-323,125	-355,344	-389,796	-423,658
Add: Capital WIP	11,923	12,000	12,000	12,000
Net fixed assets	142,553	170,334	195,882	222,020
Total assets	692,525	726,546	773,928	820,568
Current liabilities	148,763	167,079	187,867	201,867
Provisions	7,863	7,863	7,863	7,863
Total current liabilities	156,626	174,942	195,730	209,730
Non-current liabilities	25,139	30,226	30,225	30,225
Total liabilities	181,765	205,167	225,955	239,954
Paid-up capital	1,510	1,510	1,510	1,510
Reserves & surplus	504,362	514,981	541,575	574,216
Shareholders' equity	505,872	516,491	543,085	575,726
Total equity & liabilities	692,525	726,546	773,928	820,568

Cash Flow					
Particulars (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	70,648	51,594	47,851	96,129	117,990
Depreciation	35,257	30,315	32,219	34,452	33,862
Chg in working capital	-28,504	45,354	15,487	11,914	8,372
Total tax paid	-13,748	-11,556	-11,484	-23,071	-28,318
CFO	30,774	87,251	57,893	85,992	95,269
Capital expenditure	-36,364	-13,605	-60,077	-60,000	-60,000
Chg in investments	40,474	-13,191	38,000	32,000	35,000
CFI	-1,682	-37,332	-29,667	-32,997	-26,496
Free cash flow	-45,590	33,646	-42,184	-14,008	-4,731
Dividend (incl. tax)	-21,377	-29,946	-25,748	-46,465	-57,032
CFF	-23,139	-27,129	-26,893	-48,036	-58,897
Net chg in cash	5,953	22,789	1,334	4,959	9,875
Opening cash balance	1,789	211	30,364	32,186	37,145
Closing cash balance	211	30,364	32,186	37,145	47,020

Ratios				
Particulars (INR mn)	FY21	FY22E	FY23E	FY24E
EPS (INR)	140.0	120.4	241.8	356.0
PE (x)	52.5	61.1	30.4	20.7
Price/Book (x)	4.4	4.3	4.1	3.2
EV/EBITDA (x)	33.6	36.7	18.3	12.1
EV/Net sales (x)	2.6	2.3	1.8	1.3
RoE (%)	9	7	14	16
RoCE (%)	10	9	17	20
Dividend Yield (%)	1.1	1.0	2.0	2.9
Receivable (days)	7	6	6	6
Payable (days)	57	59	58	58
Revenue Growth (%)	(7)	13	25	11
EBITDA Growth (%)	(27)	(9)	99	19
EPS Growth, %	(25)	(14)	85	37
Net D/E ratio (x)	(0.8)	(0.8)	(0.8)	(0.8)

Source: Arihant 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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