

In the Slow Lane – Outlook remains bright

CMP: INR 6,569

Rating: HOLD

Target Price: INR 6,945

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) | 19,84,288 |
| 52w H/L (INR) | 7303 / 5975 |
| Avg Yearly Vol (in 000') | 1302 |

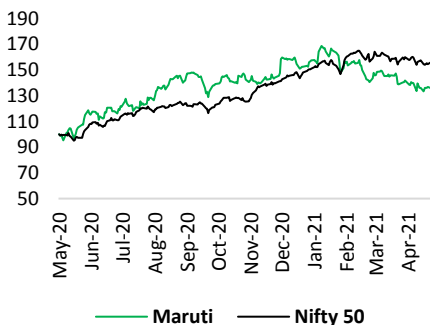
Shareholding Pattern %

(As on Mar, 2020)

| | |
|-----------------|-------|
| Promoters | 56.37 |
| Public & Others | 43.63 |

| Stock Performance (%) | 3m | 6m | 12m |
|-----------------------|-------|------|------|
| Maruti | -16.5 | -8.2 | 29.9 |
| Nifty | 4.9 | 23.2 | 57.8 |

Maruti Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Maruti Suzuki (MSIL) has reported a mixed set of numbers in Q3FY21. Standalone revenue stood and EBITDA above our estimates while PAT are slightly below our estimates. Standalone revenue stood at INR 2,40,237 Mn, above against our estimates of INR 2,06,068 Mn registering +32% YoY/+2% QoQ. EBITDA stood at INR 19,911 Mn, above against our estimates INR 16,818 Mn, Registering + 29%YoY/-11%QoQ. On the margins front, EBITDA margin flat by 0bps YoY/-1bps QoQ to 8.3%, flat against our estimates 22bps YoY to 8%. Due to adverse commodity prices and lower fair value gains on Invested surplus impacted margin. Standalone PAT saw a decline of 10%YoY/40% QoQ to INR 11,661 Mn vs below our estimates INR 12,028 Mn.

Concall highlights

- **Outlook:** The near term wholesale demand is holding up due to pending order backlog of 200k units. However, retail demand and sentiments could take a hit if the Covid situation deteriorates any further. Regional lockdowns/restrictions have been imposed in key states which contribute ~35% of Maruti's monthly sales. The auto purchase being discretionary in nature could have a hit on retail demand if covid outbreak persists. Overall rural contribution for FY21 was at 41% vs 38.5% LY and the rural demand is expected to hold up due to better kharif sowing and a normal monsoon outlook.
- **Inventory:** at the beginning of April was 32k units and is currently at 85-90k units (~12 days) but is still below the usual inventory levels of 135k-140k units.
- **Challenges:** led by chip shortage do persist and the company has taken measures to ensure alternate suppliers are working fine and the production has not been impacted as of yet. Also, the company is closely monitoring the situation and will take further steps if needed

Outlook and valuation

At CMP of INR 6,569, MSIL currently trading at FY23 P/E of 24x, to its EPS of INR 277.8. At current valuations, we find a balance between strong franchise tailwind and weak product cycle headwind. MSIL should retain pole position, driven by the launch of new products to fill white spaces and network expansion. We value Maruti at 25x FY23 EPS of INR 277.8 for the TP of INR 6,945 per share. **We maintain our Hold rating on the stock.**

| YE | Net Sales | EBITDA | PAT | EPS (Rs) | EBITDA Margin % | RoE (%) | P/E (x) |
|----------------|-----------|----------|--------|----------|-----------------|---------|---------|
| March (INR Mn) | | | | | | | |
| 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 | 33.0 |
| FY21E | 7,03,325 | 53,453 | 42,297 | 140.0 | 7.6 | 8.5 | 47.1 |
| FY22E | 9,53,852 | 88,217 | 64,082 | 212.1 | 9.2 | 12.5 | 31.1 |
| FY23E | 10,58,590 | 1,09,998 | 83,923 | 277.8 | 10.4 | 15.8 | 23.7 |

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

Other Highlights from the Conference Call

- The company took a price hike of 0.7%- 0.8% during Q4 to partially offset the sharp increase in input costs. It further took a price hike to the tune of 1.25%. The full impact of both the price hikes should be reflected in Q1FY21. However, sharp rise in input costs during Q4 had an adverse impact on gross margins (-360bps YoY). The management indicated that gross margin pressures would continue in Q1 but with lower severity. Any reversal in commodity headwinds should lead to improved gross margins. Margins could be volatile in 1HFY21 given the sharp movement in input costs. New plant ramp up in Gujarat would partially neutralize the fixed cost impact. Discounts were lower at Rs. 16.6k per unit (vs Rs 20.1k QoQ).
- **Export** revenues stood at Rs 17.5 bn during Q4 and the exports are being aided by Suzuki's partnership with Toyota which has a robust distribution network including faster growing Africa. Exports were supported by strong demand for Jimny which was received well by customers. The company is selling ~6k units (incl Baleno and Brezza) to Toyota monthly which is expected to continue.
- **Market Share Retail:** Maruti holds 50% market share in retail market and 51% if includes the units sold to Toyota. Retail volumes during Q4 were 419k units. The wholesale market share cooled down to 48%. However, the company aspires to maintain >50% market share.
- **Launch:** The company is working on to address the white spaces in the mid-sized SUV space through new launch over the medium term.
- **Fuel:** CNG sales during FY21 were up by 50% and the overall share of CNG in the overall volumes for Maruti stood at 12%. It further believes that despite efforts from the peers, EV is yet to pick up meaningfully. However, it is working on EV battery products which are under testing phase at its lithium ion facility.
- **Mix:** The first time buyers mix has gone up by 350bps to 46.9%. Add car buying is up by 360bps to 33.7%. Replacement car has come down sharply to 19.5% from 26.4% LY .

Q4FY21 result Snapshot

| Standalone (INRm) | Q4FY21 | Q4FY20 | Q3FY21 | YoY (%) | QoQ(%) |
|------------------------------|-----------------|-----------------|----------|---------|--------|
| Net Sales | 2,40,237 | 1,81,987 | 2,34,578 | 32 | 2 |
| - Raw Material | 1,77,509 | 1,27,914 | 1,70,156 | 39 | 4 |
| (% of Net Sales) | 73.9% | 70.3% | 72.5% | 105 | 102 |
| - Staff Expenditure | 9,003 | 8,194 | 9,455 | 10 | -5 |
| (% of Net Sales) | 3.7% | 4.5% | 4% | 83 | 93 |
| - Other Expenditure | 33,814 | 30,415 | 32,706 | 11 | 3 |
| (% of Net Sales) | 14.1% | 16.7% | 14% | 84 | 101 |
| Total Expenditure | 2,20,326 | 1,66,523 | 2,12,317 | 32 | 4 |
| EBITDA | 19,911 | 15,464 | 22,261 | 29 | -11 |
| EBITDA Margin (%) | 8.3% | 8.5% | 9.5% | 0bps | -1bps |
| Depreciation | 7,410 | 8,230 | 7,413 | -10 | 0 |
| EBIT | 12,501 | 7,234 | 14,848 | 73 | -16 |
| Interest | 324 | 283 | 287 | 14 | 13 |
| Other Income | 898 | 8,804 | 9,937 | -90 | -91 |
| PBT | 13,075 | 15,755 | 24,498 | -17 | -47 |
| Tax | 1,414 | 2,838 | 5,084 | -50 | -72 |
| Tax Rate (%) | 10.8% | 18.0% | 21% | -7bps | -10bps |
| Adjusted PAT | 11,661 | 12,917 | 19,414 | -10 | -40 |
| Exceptional Items | 0 | 0 | 0 | | |
| Reported PAT | 11,661 | 12,917 | 19,414 | -10 | -40 |
| Reported EPS (INR) | 38.60 | 42.76 | 64.3 | | |
| Volumes (In Nos) | 492235 | 3,85,025 | 4,95,897 | 28 | -1 |
| Net Realisation (INR) | 4,88,053 | 4,72,663 | 4,73,038 | 3 | 3 |
| EBITDA / Vehicle (INR) | 40,450 | 40,164 | 44,890 | 1 | -10 |

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

| Volumes (In Nos) | 4QFY21 | 4QFY20 | 3QFY21 | YoY (%) | QoQ (%) |
|----------------------------|-----------------|-----------------|-----------------|---------------|--------------|
| Domestic | 4,56,707 | 3,60,428 | 4,67,369 | 26.7 | (2.3) |
| A: Mini | 73,765 | 69,372 | 75,728 | 6.3 | (2.6) |
| A: Compact + Super compact | 2,39,653 | 1,94,687 | 2,49,338 | 23.1 | (3.9) |
| A: Mid-Size + Exec | 4,485 | 5,242 | 4,562 | (14.4) | (1.7) |
| Total cars | 3,17,903 | 2,69,301 | 3,29,628 | 18.0 | (3.6) |
| B: UVs | 76,945 | 50,968 | 74,850 | 51.0 | 2.8 |
| C: Vans | 61,859 | 40,159 | 62,891 | 54.0 | (1.6) |
| Export | 35,528 | 24,597 | 28,528 | 44.4 | 24.5 |
| Total Volumes | 4,92,235 | 3,85,025 | 4,95,897 | 27.8 | (0.7) |

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

| Profit & Loss Statement | | | | | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Particulars (INR mn) | FY19 | FY20 | FY21 | FY22E | FY23E |
| Net sales | 8,60,203 | 7,56,106 | 7,03,325 | 9,53,852 | 10,58,590 |
| Growth, % | 7 | -14 | -7 | 37 | 11 |
| RM expenses | -5,95,485 | -5,31,566 | -5,08,172 | -6,97,648 | -7,51,599 |
| Employee expenses | -32,549 | -33,839 | -34,029 | -39,133 | -41,090 |
| Other expenses | -1,23,397 | -1,18,892 | -1,07,671 | -1,28,854 | -1,55,903 |
| EBITDA (Core) | 1,09,993 | 73,026 | 53,453 | 88,217 | 1,09,998 |
| Growth, % | -9 | -34 | -27 | 65 | 25 |
| Margin, % | 12.8 | 9.7 | 7.6 | 9.2 | 10.4 |
| Depreciation | -30,189 | -35,257 | -30,315 | -39,416 | -41,876 |
| EBIT | 79,805 | 37,769 | 23,138 | 48,801 | 68,123 |
| Growth, % | -14 | -53 | -39 | 111 | 40 |
| Margin, % | 9.3 | 5.0 | 3.3 | 5.1 | 6.4 |
| Interest paid | -758 | -1,329 | -1,008 | -1,118 | -1,207 |
| Other Income | 25,610 | 34,208 | 29,464 | 34,473 | 40,678 |
| | 2.98 | 4.52 | 4.19 | 3.61 | 3.84 |
| Non-recurring Items | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 1,04,657 | 70,648 | 51,594 | 82,156 | 1,07,594 |
| Tax provided | -29,650 | -14,142 | -9,297 | -18,074 | -23,671 |
| Profit after tax | 75,007 | 56,506 | 42,297 | 64,082 | 83,923 |
| Others (Minorities, Associates) | - | - | - | - | - |
| Net Profit | 75,007 | 56,506 | 42,297 | 64,082 | 83,923 |
| Growth, % | -3 | -25 | -25 | 52 | 31 |
| Net Profit (adjusted) | 75,007 | 56,506 | 42,297 | 64,082 | 83,923 |

| Balance Sheet | | | | | |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Particulars (INR mn) | FY19 | FY20 | FY21 | FY22E | FY23E |
| Cash & bank | 1,789 | 211 | 30,364 | 43,233 | 50,011 |
| Marketable securities cost | 3,49,878 | 3,49,404 | 4,02,595 | 4,32,595 | 4,62,595 |
| Debtors | 23,104 | 19,749 | 12,766 | 17,313 | 19,214 |
| Inventory | 33,257 | 32,149 | 30,500 | 41,872 | 45,110 |
| 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 | 1,29,905 | 1,41,827 |
| Investments | 15,272 | 15,272 | 15,272 | 15,272 | 15,272 |
| Gross fixed assets | 4,11,631 | 4,50,622 | 4,65,678 | 4,95,678 | 5,25,678 |
| Less: Depreciation | -2,57,553 | -2,92,810 | -3,23,125 | -3,62,540 | -4,04,416 |
| 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 | 1,33,138 | 1,21,262 |
| Total assets | 6,29,318 | 6,24,971 | 6,92,525 | 7,41,493 | 7,71,538 |
| Current liabilities | 1,33,763 | 1,05,089 | 1,48,763 | 1,82,800 | 1,93,290 |
| | | | | | |
| Provisions | 6,639 | 7,312 | 7,863 | 7,863 | 7,863 |
| Total current liabilities | 1,40,402 | 1,12,401 | 1,56,626 | 1,90,663 | 2,01,153 |
| Non-current liabilities | 26,005 | 27,137 | 25,139 | 25,139 | 25,139 |
| Total liabilities | 1,66,407 | 1,39,538 | 1,81,765 | 2,15,802 | 2,26,292 |
| Paid-up capital | 1,510 | 1,510 | 1,510 | 1,510 | 1,510 |
| Reserves & surplus | 4,59,905 | 4,82,860 | 5,04,362 | 5,19,293 | 5,38,848 |
| Shareholders' equity | 4,61,415 | 4,84,370 | 5,05,872 | 5,20,803 | 5,40,358 |
| Total equity & liabilities | 6,29,318 | 6,24,971 | 6,92,525 | 7,41,493 | 7,71,538 |

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 | 82,156 | 1,07,594 |
| Depreciation | 30,189 | 35,257 | 30,315 | 39,416 | 41,876 |
| Chg in working capital | -15,164 | -28,504 | 45,354 | 18,113 | 5,347 |
| Total tax paid | -29,323 | -13,748 | -11,556 | -18,074 | -23,671 |
| CFO | 62,280 | 30,774 | 87,251 | 88,254 | 91,675 |
| Capital expenditure | -45,419 | -36,364 | -13,605 | -30,077 | -30,000 |
| Chg in investments | 27,752 | 40,474 | -13,191 | 10,000 | 10,000 |
| CFI | -32,057 | -1,682 | -37,332 | -25,604 | -19,322 |
| Free cash flow | -23,138 | -45,590 | 33,646 | 18,177 | 21,675 |
| Dividend (incl. tax) | -28,455 | -21,377 | -29,946 | -49,151 | -64,369 |
| CFF | -28,825 | -23,139 | -27,129 | -50,269 | -65,576 |
| Net chg in cash | 1,398 | 5,953 | 22,789 | 12,381 | 6,777 |
| Opening cash balance | 711 | 1,789 | 211 | 30,364 | 43,233 |
| Closing cash balance | 1,789 | 211 | 30,364 | 43,233 | 50,011 |

| Ratios | | | | | |
|--------------------------|-------|-------|-------|-------|-------|
| Particulars (INR mn) | FY19 | FY20 | FY21 | FY22E | FY23E |
| EPS (INR) | 248.3 | 187.1 | 140.0 | 212.1 | 277.8 |
| PE (x) | 24.8 | 33.0 | 47.1 | 31.1 | 23.7 |
| Price/Book (x) | 4.0 | 3.8 | 3.9 | 3.8 | 3.7 |
| EV/EBITDA (x) | 13.7 | 20.7 | 29.3 | 17.2 | 13.5 |
| EV/Net sales (x) | 1.8 | 2.1 | 2.2 | 1.6 | 1.4 |
| RoE (%) | 17 | 12 | 9 | 12 | 16 |
| RoCE (%) | 23 | 14 | 10 | 15 | 19 |
| Fixed Asset turnover (x) | 2.1 | 1.7 | 1.5 | 1.9 | 2.0 |
| Dividend Yield (%) | 1.3 | 1.0 | 1.3 | 2.1 | 2.7 |
| Receivable (days) | 10 | 10 | 7 | 7 | 7 |
| Inventory (days) | 16 | 17 | 17 | 18 | 17 |
| Payable (days) | 47 | 40 | 57 | 57 | 56 |
| Revenue Growth (%) | 7 | -14 | -7 | 37 | 11 |
| EBIDTA Growth (%) | -9 | -34 | -27 | 65 | 25 |
| EPS Growth, % | -7 | -25 | -25 | 52 | 21 |
| Net D/E ratio (x) | (0.8) | (0.7) | (0.8) | (0.9) | (0.9) |

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

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

| Head Office | Registered Office |
|---|--|
| #1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880 | Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199 |

| 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% |

| Research Analyst Registration No. | Contact | Website | Email Id |
|--------------------------------------|-------------------------|--|--|
| INH000002764 | SMS: 'Arihant' to 56677 | www.arihantcapital.com | research@arihantcapital.com |

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880