

CMP: Rs 7020

Rating: HOLD

Target Price: Rs 7,685

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 bn)	2114
52w H/L (Rs)	7,755 / 5,447
Avg Yearly Vol (in 000')	1005

Shareholding Pattern %

(As on Dec, 2019)

Promoters	56.2
Public & Others	43.8

Stock Performance (%)	3m	6m	12m
Maruti	-5.72	20.52	7.50
BSE	2.80	8.70	14.90

Maruti Vs Sensex



Maruti Suzuki (MSIL) December quarter numbers failed to perform as higher than expected discounts in 3QFY20 confirmed the challenging demand environment and left limited demand visibility. MSIL Net profit stood at 15,648mn YoY rise 5.1% for the December quarter compared with Rs 14893mn in the same quarter last year. During the quarter, lower operating expenses, lower commodity prices and reduction in corporate tax rate were partially offset by higher sales promotion expenses, higher depreciation and lower fair value gains on invested. MSIL registered Net Sales of Rs. 196,491mn, higher by 3.8% compared to the same period previous year. The company sold 4.37 lakh vehicles in the December quarter, up 2 per cent from the year-ago period. EBITDA stood at Rs 21,021mn, flat in margins at 10.2% (-9bps YoY).

Concall highlights

- The company was able to reduce the stock of BS IV model significantly, only 9 days' inventory pending and good response as in less time company would sell over 5 lakh BS VI model.
- The management expects rural demand to pick up based on healthy monsoon and strong Ravi crop sowing. Rural contribution 38% of Maruti's volumes.
- The company will produce only petrol vehicles from February onward. Maruti has 60% market share in petrol cars.
- Diesel penetration has fallen to 30%. And for Maruti it stood at less than 20%.
- The commodity price is actually showing U turn as steel has started rising and will see increase in the 1QFY21. (majority use in BS VI model)
- Gujarat Plant production this quarter was at 116718 units.
- The company has taken a price hike of Rs 3500-7000 per car across models (3-5% increase).
- Capex guidance of Rs. 40000mn for FY20 (spent about Rs.25000mn on 9MFY20 basis).
- Discount for the quarter stood at Rs.11440mn.
- Royalty rate for the quarter was 5.4%

Outlook and valuation

During the quarter company has added 81 new arena stores in 9MFY20. Total Arena store count stood at 2700. The company has taken a price hike of 3-5% per car across models BS VI. The BS-VI variants were sold starting April last year, and came with a premium of up to `30,000. Others are yet to launch the entire portfolio with the upgraded engine. We believe MSIL is likely to see market share erosion on diesel discontinuation and benign margin recovery due to regulatory cost increases, commodity price strengthening and high consumer acquisition cost on rising competitive challenges. Key revival can see (1) Slower-than-expected change in market share dynamics, (2) sharp margin recovery, and (3) sharp revival in PV industry demand. We maintain our rating to Hold on the stock and value it at 25x FY22E for a target price of Rs7,685 with an upside of 9.5%.

Quarterly result summary

Standalone (INRm)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)
Net Sales	207,068	196,683	5.3	169,853	21.9
- Raw Material	150,130	140,437	6.9	120,994	24.1
(% of Net Sales)	73	71	110	71	127
- Staff Expenditure	8,670	8,331	4.1	8,384	3.4
(% of Net Sales)	4	4	(5)	5	(75)
- Other Expenditure	27,247	28,124	(3.1)	24,412	11.6
(% of Net Sales)	13	14	(114)	14	(121)
Total Expenditure	186,047	176,892	5.2	153,790	21.0
EBITDA	21,021	19,791	6.2	16,063	30.9
EBITDA Margin (%)	10	10	9	9	69
Depreciation	8,580	7,677	11.8	9,261	(7.4)
EBIT	12,441	12,114	2.7	6,802	82.9
Interest	217	206	5.3	282	(23.0)
Other Income	7,840	9,173	(14.5)	9,200	(14.8)
PBT	20,064	21,081	(4.8)	15,720	27.6
Tax	4,416	5,708	(22.6)	2,134	106.9
Tax Rate (%)	22	27	(507)	14	843
Adjusted PAT	15,648	15,373	1.8	13,586	15.2
Exceptional Items	0	-480	NA	0	NA
Reported PAT	15,648	14,893	5.1	13,586	15.2
Reported EPS (INR)	52	49	5.1	45	15.2
Volumes (In Nos)	437,361	428,643	2.0	338,317	29.3
Net Realisation (INR)	473,449	458,850	3.2	502,053	(5.7)
EBITDA / Vehicle (INR)	48,063	46,171	4.1	47,479	1.2

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

Volumes (In Nos)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (%)	QoQ (%)
Domestic	455,303	405,597	428,863	374,481	312,519	413,698	2.0	32.4
A: Mini	108,576	90,450	74,985	57,893	41,785	78,726	(13.0)	88.4
A: Compact + Super compact	219,748	188,656	220,733	205,178	168,965	218,780	16.0	29.5
A: Mid-Size + Exec	13,296	12,464	9,690	8,703	5,708	5,605	(55.0)	(1.8)
Total cars	341,620	291,570	305,408	271,774	216,458	303,111	4.0	40.0
B: UVs	64,115	64,501	69,827	58,984	55,226	70,120	8.7	27.0
C: Vans	49,568	49,526	53,628	43,723	40,835	40,467	(18.3)	(0.9)
Export	29,448	23,046	29,616	28,113	25,798	23,663	2.7	(8.3)
Total Volumes	484,751	428,643	458,479	402,594	338,317	437,361	2.0	29.3

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

Exhibit 1: Quarterly net sales and growth trend

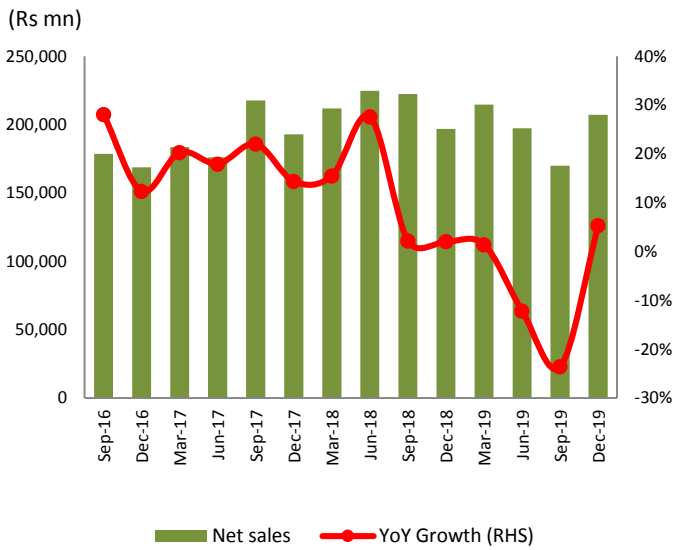


Exhibit 2: realizations and growth trend

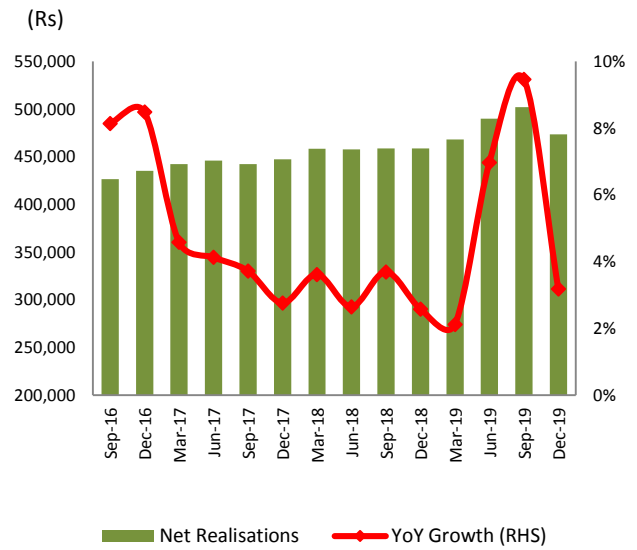


Exhibit 3: Quarterly discount and % of sales trend

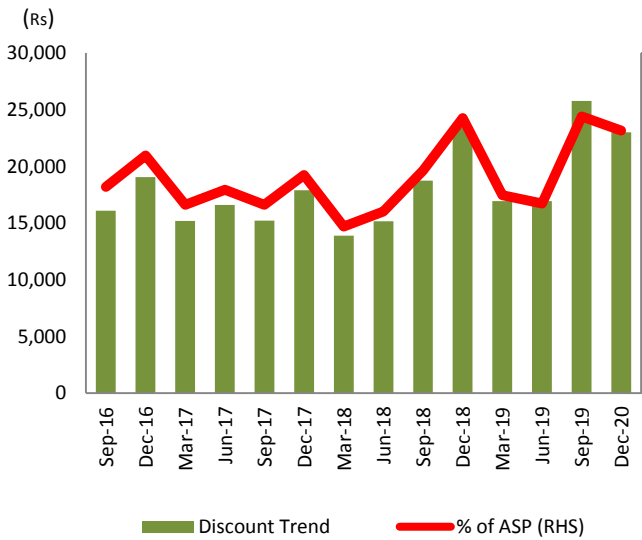
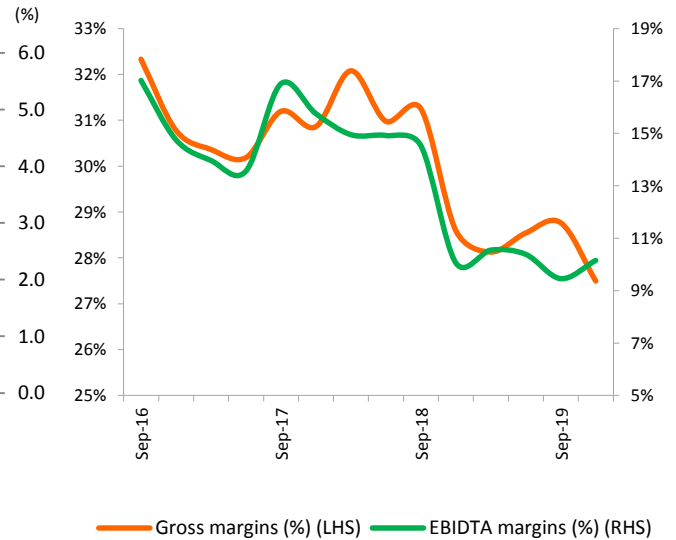


Exhibit 4: Quarterly gross and EBITDA margins trend



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

Profit & Loss Statement					
Particulars (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	797,627	860,205	741,429	797,315	867,287
Growth, %	17	7	(14)	8	9
RM expenses	-549,750	-602,542	-513,069	-534,998	-581,949
Employee expenses	-28,338	-32,549	-35,804	-40,100	-44,912
Other expenses	-98,924	-115,119	-105,973	-104,995	-111,536
EBITDA (Core)	120,615	109,995	86,583	117,221	128,889
Growth, %	16	(9)	(21)	35	10
Margin, %	15.1	12.8	11.7	14.7	14.9
Depreciation	-27,579	-30,189	-20,798	-35,976	-38,576
EBIT	93,036	79,807	65,785	81,244	90,312
Growth, %	20	(14)	(18)	23	11
Margin, %	11.7	9.3	8.9	10.2	10.4
Interest paid	-178	-758	-530	-573	-622
Other Income	20,455	25,610	32,012	38,735	46,869
Non-recurring Items	(3,285)	0	0	0	0
Pre-tax profit	113,313	104,658	97,267	119,406	136,559
Tax provided	-32,816	-29,650	-29,180	-38,210	-43,699
Profit after tax	80,497	75,008	68,087	81,196	92,860
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	77,212	75,008	68,087	81,196	92,860
Growth, %	5	(3)	(9)	19	14
Net Profit (adjusted)	80,497	75,008	68,087	81,196	92,860

Balance Sheet					
YE: Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Cash & bank	711	1,789	1,604	1,962	4,671
Marketable securities cost	337,630	354,952	400,452	455,452	520,452
Debtors	14,618	23,104	16,476	17,718	19,273
Inventory	31,608	33,257	31,354	32,694	35,564
Loans & advances	32	160	176	194	213
Other current assets	38,981	14,851	14,851	14,851	14,851
Total current assets	85,950	73,161	64,462	67,419	74,572
Investments	15,272	15,272	15,272	15,272	15,272
Gross fixed assets	360,954	407,120	433,454	465,954	498,454
Less: Depreciation	-227,364	-257,553	-278,351	-314,327	-352,903
Add: Capital WIP	21,259	16,001	16,001	16,001	16,001
Net fixed assets	133,590	149,567	155,104	151,627	145,551
Total assets	593,701	608,953	651,290	705,772	771,848
Current liabilities	163,566	133,763	131,942	137,867	148,408
Provisions	5,865	6,639	7,303	8,033	8,837
Total current liabilities	169,431	140,402	139,245	145,900	157,244
Non-current liabilities	5,589	5,640	5,640	5,640	5,640
Total liabilities	175,020	146,042	144,885	151,540	162,884
Paid-up capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	416,063	459,905	504,095	552,041	606,875
Shareholders' equity	417,573	461,415	505,605	553,551	608,385
Total equity & liabilities	593,701	608,953	651,290	705,772	771,848

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

Cash Flow					
YE: Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Pre-tax profit	110,028	104,658	97,267	119,406	136,559
Depreciation	27,579	30,189	20,798	35,976	38,576
Chg in working capital	27,549	-15,162	7,358	4,055	6,901
Total tax paid	-32,816	-29,323	-29,180	-38,210	-43,699
CFO	119,927	62,284	64,760	83,066	92,090
Capital expenditure	-37,013	-40,908	-26,334	-32,500	-32,500
Chg in marketable securities	-40,000	-40,000	-40,000	-40,000	-40,000
Chg in investments	-30,618	22,678	-5,500	-15,000	-25,000
CFI	-87,176	-32,620	-39,822	-48,765	-50,631
Free cash flow	42,914	-18,623	-1,574	10,566	19,590
Debt raised/(repaid)	-3,728	388	-695	-120	-102
Dividend (incl. tax)	-28,265	-28,215	-23,899	-33,250	-38,026
CFF	-32,171	-28,585	-25,124	-33,943	-38,750
Net chg in cash	580	1,080	(186)	358	2,709
Opening cash balance	131	711	1,789	1,604	1,962
Closing cash balance	711	1,789	1,604	1,962	4,671

Ratios					
YE: Mar	FY18	FY19	FY20E	FY21E	FY22E
EPS (INR)	266	248	225	269	307
PE (x)	21.8	23.4	31.1	26.1	22.8
Price/Book (x)	4.2	3.8	4.2	3.8	3.5
EV/EBITDA (x)	11.7	12.7	19.9	14.2	12.4
EV/Net sales (x)	1.8	1.7	2.4	2.1	1.8
RoE (%)	21	17	14	15	16
RoCE (%)	29	24	20	22	23
Fixed Asset turnover (x)	2.2	2.1	1.7	1.7	1.7
Dividend Yield (%)	1.4	1.4	1.0	1.3	1.5
Receivable (days)	7	10	8	8	8
Inventory (days)	17	16	17	18	18
Payable (days)	57	47	52	52	52
Revenue Growth (%)	17	7	(14)	8	9
EBIDTA Growth (%)	16	(9)	(21)	35	10
EPS Growth, %	10	(7)	(9)	19	14
Net D/E ratio (x)	(0.9)	(0.8)	(0.8)	(0.8)	(0.9)

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

Arihant Research Desk

Email: research@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