

In the Slow Lane – Outlook remains bright

CMP: INR 7589

Rating: HOLD

Target Price: INR 8073

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)	22,9,254
52w H/L (INR)	8,329 / 4,001
Avg Yearly Vol (in 000')	1396

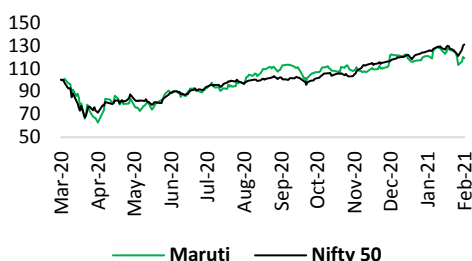
Shareholding Pattern %

(As on Dec, 2020)

Promoters	56.37
Public & Others	43.63

Stock Performance (%)	3m	6m	12m
Maruti	9.7	23.1	8.2
Nifty	20.6	-8.3	2.1

Maruti Vs Nifty



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Maruti Suzuki (MSIL) has reported a mixed set of numbers in Q3FY21. Standalone revenue stood above our estimates while EBITDA and PAT are slightly below our estimates. Standalone revenue stood at INR 2,34,578 Mn, registering +13% YoY/+25% QoQ. EBITDA stood at INR 22,261 Mn, up by 6%YoY/15%QoQ. On the margins front, EBITDA margin flat by -1bps YoY/-1bps QoQ to 9.5%. Standalone PAT saw a rise of 24%YoY/14% QoQ to INR 19,414 Mn vs INR 15,648 Mn in Q3FY20. EPS at INR 64.3 vs INR. 51.8 YoY (INR. 45.4 QoQ). Total Volume was up by 13%YoY to 4,95,897 units.

Concall highlights

- **Demand:** Given the uncertainty of sustainability of demand and increased in input cost could not be passed on by way of price increases.
- Rural sales penetration stood at 40% for Q3FY21.
- Replacement buying declined 19% this year (26% last year).
- Post pandemic people are upgrading their vehicles less and holding their buying little longer. The average age of vehicles coming to True Value is 9.2 years (earlier 8 years). So the replacement buying is still not bounced back however sees a much better sentiment post pandemic.
- Staff costs were impacted by increments that were deferred to H2 and one time provision of retirement benefits.
- Channel inventory is very low at the beginning of Q4 at 21k vehicles.
- Company believes the path to electrification would be through Hybrid.
- **Pricing and margin outlook:** The company will remain cautious while taking further price hikes as the current volume is still 33% below peak levels. Margin in 4Q is likely to be impacted due to continued increase in precious metal/steel prices. The company plans to mitigate the impact of commodity inflation through lower discounts, price hikes (upto INR 34k taken w.e.f. 18Jan'21), cost reduction efforts and supply chain optimization.

Outlook and valuation

At CMP of INR 7589, MSIL is trading at a FY23 P/E of 23x. We have increased our revenue estimates for FY22-23 factoring the higher realization and volume growth. Hence Maruti's strong demand outlook, with pending orders of 215k units, and believe the commodity headwinds will be partially offset by rising utilisation levels, Price hikes and normalizing product mix over FY22-23E as demand revives. **Key risk:** Delay in economic recovery, increase in competition, adverse movement in currency/commodity prices, etc. We value Maruti at 30x FY23 EPS of INR 269 for TP of INR 8,073 per share. **We upgrade our rating to Hold from Neutral earlier.**

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	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	33.0
FY21E	6,69,156	49,781	42,664	141.2	7.4	8.7	43.7
FY22E	8,07,853	66,048	59,624	197.4	8.2	11.5	31.2
FY23	9,50,386	87,008	81,294	269.1	9.2	14.5	22.9

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

Q3FY21 result Snapshot

Standalone (INRm)	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ(%)
Net Sales	2,34,578	2,07,068	1,87,445	13	25
- Raw Material	1,70,156	1,46,811	1,31,143	16	30
(% of Net Sales)	72.5%	71%	70%	102	104
- Staff Expenditure	9,455	8,670	8,268	9	14
(% of Net Sales)	4%	4%	4%	96	91
- Other Expenditure	32,706	30,566	28,698	7	14
(% of Net Sales)	14%	15%	15%	94	91
Total Expenditure	2,12,317	1,86,047	1,68,109	14	26
EBITDA	22,261	21,021	19,336	6	15
EBITDA Margin (%)	9.5%	10%	10%	-1bps	-1bps
Depreciation	7,413	8,580	7,659	-14	-3
EBIT	14,848	12,441	11,677	19	27
Interest	287	217	283	32	1
Other Income	9,937	7,840	6,025	27	65
PBT	24,498	20,064	17,478	22	40
Tax	5,084	4,416	3,762	15	35
Tax Rate (%)	21%	22%	22%	-1bps	-1bps
Adjusted PAT	19,414	15,648	13,716	24	14
Exceptional Items	0	0	0		
Reported PAT	19,414	15,648	13,716	24	14
Reported EPS (INR)	64.3	51.8	45.4		
Volumes (In Nos)	4,95,897	4,37,361	3,93,130	13	11
Net Realisation (INR)	4,73,038	4,73,449	4,76,802	0	-1
EBITDA / Vehicle (INR)	44,890	48,063	49,185	-7	-2

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

Volumes (In Nos)	3QFY21	3QFY20	2QFY21	YoY (%)	QoQ (%)
Domestic	4,67,369	4,13,698	3,70,619	13.0	26.1
A: Mini	75,728	78,726	64,213	(3.8)	17.9
A: Compact + Super compact	2,49,338	2,18,780	1,97,698	14.0	26.1
A: Mid-Size + Exec	4,562	5,605	4,060	(18.6)	12.4
Total cars	3,29,628	3,03,111	2,65,971	8.7	23.9
B: UVs	74,850	70,120	63,906	6.7	17.1
C: Vans	62,891	40,467	40,742	55.4	54.4
Export	28,528	23,663	22,511	20.6	26.7
Total Volumes	4,95,897	4,37,361	3,93,130	13.4	26.1

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

Exhibit 1: Quarterly net sales and growth trend

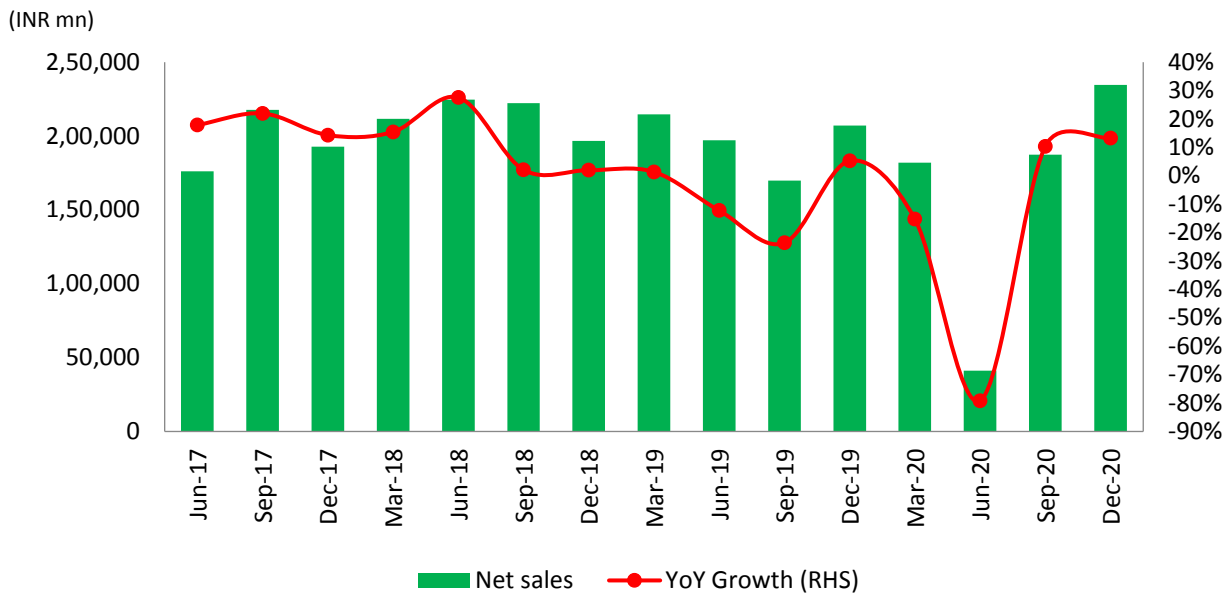
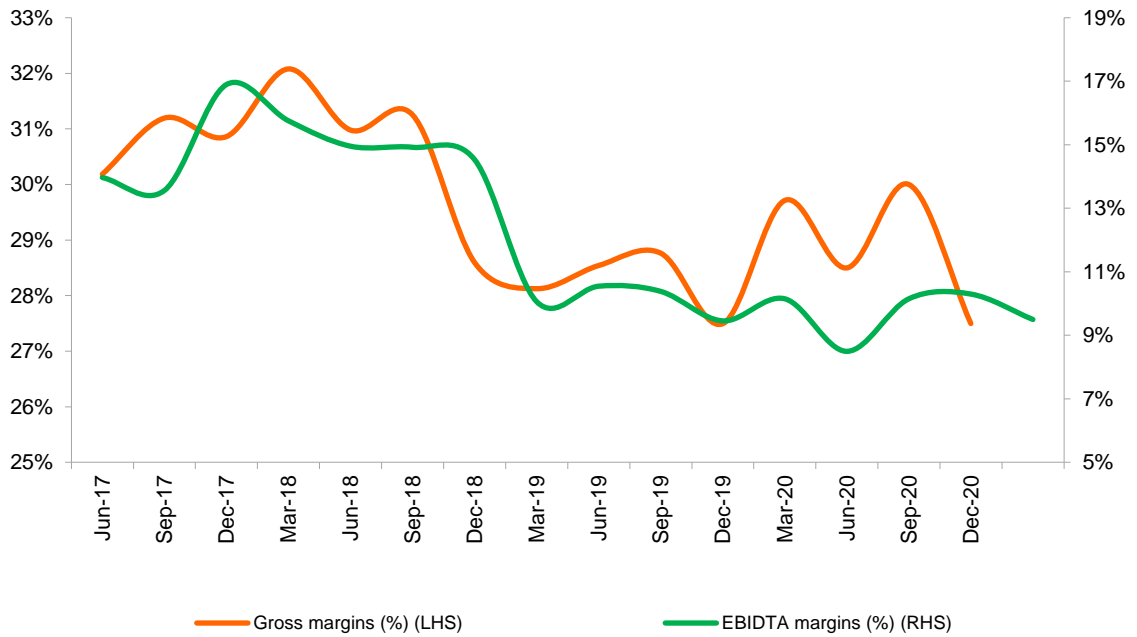


Exhibit 2: Quarterly gross and EBITDA margins trend



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

Exhibit 3: Net Realizations trend

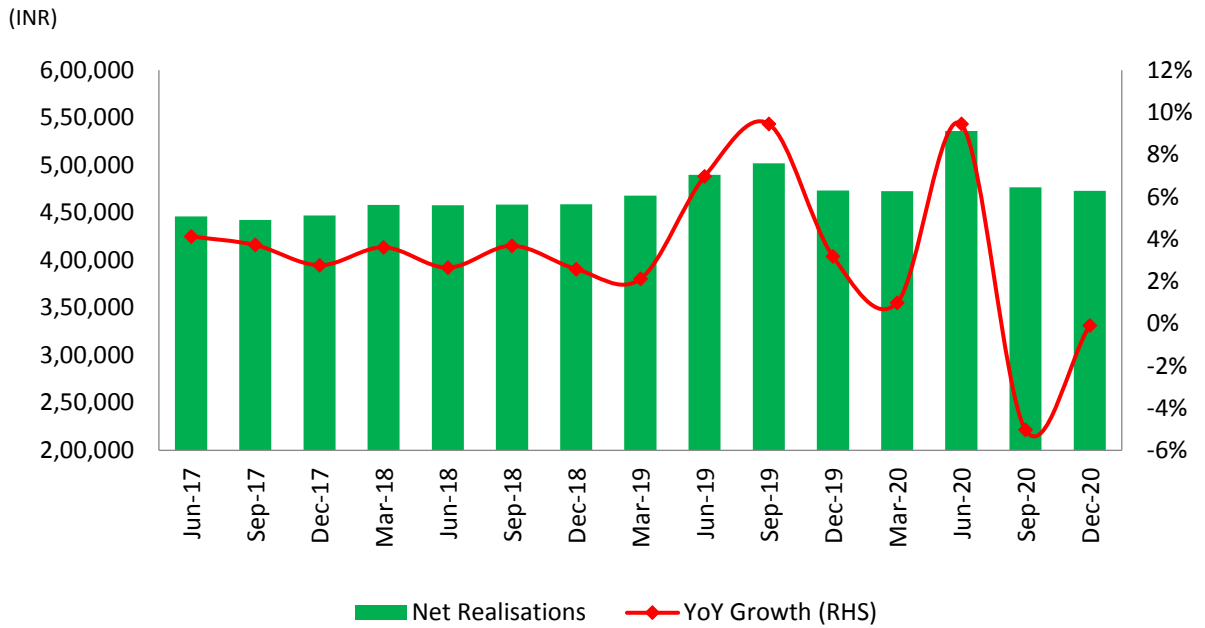
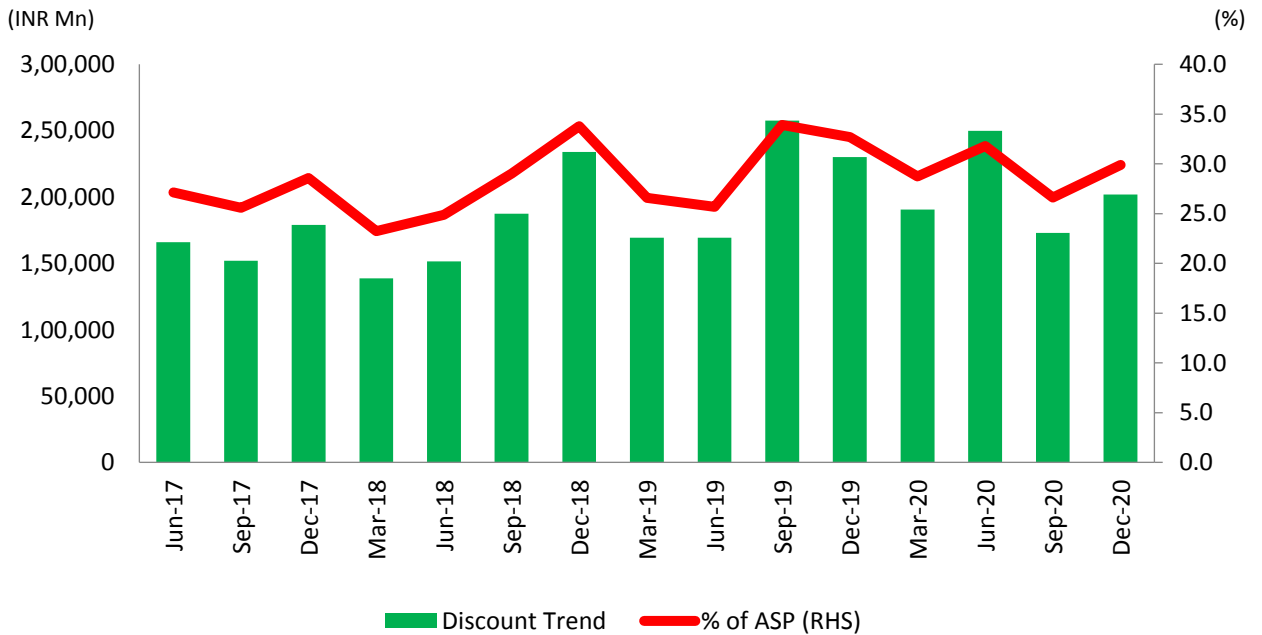


Exhibit 3: Average Discount over the quarters



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

Profit & Loss Statement					
Particulars (INR mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	8,60,203	7,56,106	6,69,156	8,07,853	9,50,386
Growth, %	7	-14	-12	22	18
RM expenses	5,95,485	5,31,566	4,86,477	5,73,576	6,74,774
Employee expenses	-32,549	-33,839	-37,054	-40,759	-44,835
Other expenses	1,23,397	1,18,892	-95,845	1,27,470	1,43,769
EBITDA (Core)	1,09,993	73,026	49,781	66,048	87,008
Growth, %	-9	-34	-32	33	32
Margin, %	12.8	9.7	7.4	8.2	9.2
Depreciation	-30,189	-35,257	-31,462	-35,305	-37,759
EBIT	79,805	37,769	18,320	30,743	49,249
Growth, %	-14	-53	-51	68	60
Margin, %	9.3	5.0	2.7	3.8	5.2
Interest paid	-758	-1,329	-909	-910	-910
Other Income	25,610	34,208	37,287	46,608	55,883
	2.98	4.52	5.57	5.77	5.88
Non-recurring Items	0	0	0	0	0
Pre-tax profit	1,04,657	70,648	54,697	76,442	1,04,223
Tax provided	-29,650	-14,142	-12,033	-16,817	-22,929
Profit after tax	75,007	56,506	42,664	59,624	81,294
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	75,007	56,506	42,664	59,624	81,294
Growth, %	-3	-25	-24	40	36
Net Profit (adjusted)	75,007	56,506	42,664	59,624	81,294

Cash Flow					
Particulars (INR mn)	FY19	FY20	FY21E	FY22E	FY23E
Pre-tax profit	1,04,657	70,648	54,697	76,442	1,04,223
Depreciation	30,189	35,257	31,462	35,305	37,759
Chg in working capital	-15,164	-27,954	14,955	6,108	9,385
Total tax paid	-29,323	-13,748	-12,033	-16,817	-22,929
CFO	62,280	31,324	52,703	55,339	73,465
Capital expenditure	-45,419	-36,722	-13,600	-28,000	-27,001
Chg in investments	27,752	40,474	-10,000	10,000	10,000
CFI	-32,057	-2,040	-26,314	-11,392	-1,118
Free cash flow	-23,138	-45,398	-898	-12,661	6,464
Debt raised/(repaid)	388	-433	-383	-102	-87
Dividend (incl. tax)	-28,455	-20,003	-17,620	-24,625	-33,574
CFF	-28,825	-21,765	-18,912	-25,637	-34,571
Net chg in cash	1,398	7,519	7,477	18,311	37,776
Opening cash balance	711	1,789	211	17,105	35,416
Closing cash balance	1,789	211	17,105	35,416	73,193

Balance Sheet					
Particulars (INR mn)	FY19	FY20	FY21E	FY22E	FY23E
Cash & bank	1,789	211	17,105	35,416	73,193
Marketable securities cost	3,49,878	3,49,404	3,99,404	4,29,404	4,59,404
Debtors	23,104	21,270	14,870	17,952	21,120
Inventory	33,257	32,149	29,729	35,052	41,236
Loans & advances	162	171	174	178	181
Other current assets	14,851	18,287	18,287	18,287	18,287
Total current assets	73,163	72,088	80,166	1,06,885	1,54,017
Investments	15,272	15,272	15,272	15,272	15,272
Gross fixed assets	4,11,631	4,50,980	4,62,954	4,89,954	5,16,955
Less: Depreciation	2,57,553	2,92,810	3,24,272	3,59,577	3,97,336
Add: Capital WIP	16,001	13,374	15,000	16,000	16,000
Net fixed assets	1,54,078	1,58,170	1,38,683	1,30,377	1,19,619
Total assets	6,29,318	6,25,521	6,48,525	6,97,939	7,64,312
Current liabilities	1,33,763	1,05,639	1,11,777	1,26,294	1,45,035
Provisions	6,639	7,312	7,312	7,312	7,312
Total current liabilities	1,40,402	1,12,951	1,19,089	1,33,606	1,52,347
Non-current liabilities	26,005	27,137	27,137	27,137	27,137
Total liabilities	1,66,407	1,40,088	1,46,226	1,60,743	1,79,484
Paid-up capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	4,59,905	4,82,860	5,00,108	5,35,107	5,82,827
Shareholders' equity	4,61,415	4,84,370	5,01,618	5,36,617	5,84,337
Total equity & liabilities	6,29,318	6,25,521	6,48,524	6,97,938	7,64,312

Ratios					
Particulars (INR mn)	FY19	FY20	FY21E	FY22E	FY23E
EPS (INR)	248.3	187.1	141.2	197.4	269.1
PE (x)	24.8	33.0	43.7	31.2	22.9
Price/Book (x)	4.0	3.8	3.7	3.5	3.2
EV/EBITDA (x)	13.7	20.7	29.1	21.2	15.3
EV/Net sales (x)	1.8	2.1	2.2	1.7	1.4
RoE (%)	17	12	9	11	15
RoCE (%)	23	14	11	14	18
Fixed Asset turnover (x)	2.1	1.7	1.4	1.6	1.8
Dividend Yield (%)	1.3	0.9	0.8	1.1	1.5
Receivable (days)	10	11	9	9	8
Inventory (days)	16	17	18	17	17
Payable (days)	47	40	48	47	48
Revenue Growth (%)	7	-14	-12	22	18
EBITDA Growth (%)	-9	-34	-32	33	32
EPS Growth, %	-7	-25	-24	40	26
Net D/E ratio (x)	(0.8)	(0.7)	(0.8)	(0.9)	(0.9)

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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