

Weak Quarter

CMP: Rs 7458

Rating: HOLD

Target: Rs 8005

(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)	2232
52w H/L (Rs)	7929 / 5447
Avg Weekly Vol (BSE+NSE)	611789

Shareholding Pattern

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

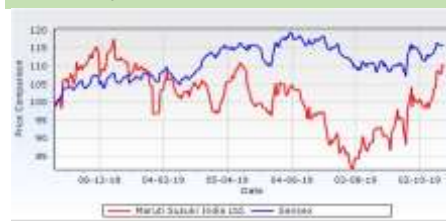
Source: NSE, Arihant Research

Stock Performance (%)

	3m	6m	12m
MARUTI	28.2	5.2	9.2
SENSEX	3.1	-0.1	14.7

Source: ACE Equity, Arihant Research

MARUTI v/s SENSEX



Source: ACE Equity, Arihant Research

Maruti Suzuki (MSIL) reported weak results in Q2FY20. Standalone revenue stood Rs. 169,853mn registering de-growth of ~23.6% / 8.1% YoY / QoQ respectively, below our est to Rs. 185,492mn. This was mainly because of lower capacity utilisation. Realisations were at Rs. 502K (+9.5% YoY / 2.5% QoQ) due to higher price for safety an BS VI models. Gross margins expanded at 28.8% (-249bps YoY / +22 bps QoQ) on account of cost cutting initiative and favourable commodity prices. EBITDA stood at Rs 16,063 mn, with steep decline in margins at 9.5% (-508bps YoY) led by higher employee cost (+6% YoY) and sales promotion expense. PAT declined ~39% to Rs. 13,586mn which however benefited due to reduction in corporate tax rate (~14%). EBITDA / Vehicle dropped by ~29% YoY.

Concall highlights

- The company is conscious of the current down cycle and is making all possible efforts to contain costs.
- The de-growth in rural segment (-18%) is less than urban segment. Rural contribution to total sales is ~39%.
- The management indicated that current inventory stands at 30-32 days whereas the inventory at factory level is at ~50K which will come down over the next 1-2 months.
- PV domestic sales is shifting to petrol with 66.7% share of petrol (for Maruti 77.5% vs 74.2% in Q2FY19)
- During the quarter MSIL launched 2 new modules, a premium MPV XL6 and a Mini SUV S-PRESSO. Both are seeing decent initial response with 16.5k bookings in 3 weeks.
- The management highlighted there is a single digit growth in retail segment during festive season driven by significantly higher discounting.
- Gradual recovery in the PV industry but discounts could remain high in the near term.
- The company's rural sales stand at 37%
- Average discounts have gone up during Q2 to Rs25.8k vs Rs.16.9k in last quarter.
- Overall sales in A segment (passenger car) has reduced to 60% from 66%. The company's market share for C segment (Passenger Vehicle) has gone up and for B segment (SUV) has gone down in H1FY20.
- Export sales were Rs. 12bn.
- The production from the Gujarat plant stood at 82K units.
- Royalty remains constant at 5.2% of sales

Outlook and valuation

We believe, the demand for PV industry will remain subdued in near term. Maruti has taken inventory correction measure to reduced inventory within normal levels. Recent pick up in retail demand also resulted in volume uptick which reduced the stress on dealer working capital. We expect finance availability for customers would improve demand. Favourable commodity prices, cost savings should improve margins going forward. Similarly, Maruti has limited risk of BS VI transition as it has stayed ahead of competition. We believe, MSIL will be well poised to gain market share backed by strong product portfolio, new product launches with BS VI models. However, uncertainty on foreign exchange and rising commodity prices is a risk to our valuation. We revise our rating to HOLD (NEUTRAL earlier) on the stock and value it at 28x FY21E for a target price of Rs 8,005 with an upside of 7.3%.

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Quarterly result summary

Standalone (INRm)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)
Net Sales	222,332	196,683	214,594	197,198	169,853	(23.6)	(13.9)
- Raw Material	152,849	140,437	154,236	140,913	120,994	(20.8)	(14.1)
(% of Net Sales)	68.7	71.4	71.9	71.5	71.2	249	(22)
- Staff Expenditure	7,917	8,331	8,169	8,591	8,384	5.9	(2.4)
(% of Net Sales)	3.6	4.2	3.8	4.4	4.9	138	58
- Other Expenditure	29,253	28,124	29,555	27,216	24,412	(16.5)	(10.3)
(% of Net Sales)	13.2	14.3	13.8	13.8	14.4	122	57
Total Expenditure	190,019	176,892	191,960	176,720	153,790	(19.1)	(13.0)
EBITDA	32,313	19,791	22,634	20,478	16,063	(50.3)	(21.6)
EBITDA Margin (%)	14.5	10.1	10.5	10.4	9.5	(508)	(93)
Depreciation	7,212	7,677	8,102	9,186	9,261	28.4	0.8
EBIT	25,101	12,114	14,532	11,292	6,802	(72.9)	(39.8)
Interest	257	206	88	547	282	9.7	(48.4)
Other Income	5,266	9,173	8,677	8,364	9,200	74.7	10.0
PBT	30,110	21,081	23,121	19,109	15,720	(47.8)	(17.7)
Tax	9,706	5,708	5,165	4,754	2,134	(78.0)	(55.1)
Tax Rate (%)	32.2	27.1	22.3	24.9	13.6	(1,866)	(1,130)
Adjusted PAT	20,404	15,373	17,956	14,355	13,586	(33.4)	(5.4)
Exceptional Items	2,000	(480)	0	0	0	NA	NA
Reported PAT	22,404	14,893	17,956	14,355	13,586	(39.4)	(5.4)
Reported EPS (INR)	74.17	49.30	59.44	47.52	44.97	(39.4)	(5.4)
Volumes (In Nos)	484,751	428,643	458,479	402,594	338,317	(30.2)	(16.0)
Net Realisation (INR)	458,652	458,850	468,056	489,819	502,053	9.5	2.5
EBITDA / Vehicle (INR)	66,659	46,171	49,368	50,865	47,479	(28.8)	(6.7)

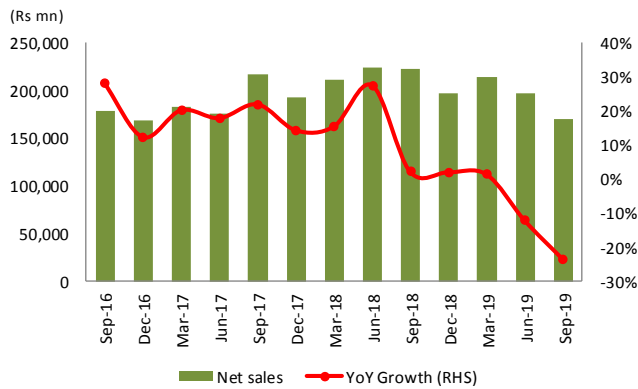
Source: Company, Arianth Capital Markets

Volumes (In Nos)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)
Domestic	455,303	405,597	428,863	374,481	312,519	(31.4)	(12.7)
A: Mini	108,576	90,450	74,985	57,893	41,785	(61.5)	(22.8)
A: Compact + Super compact	219,748	188,656	220,733	205,178	168,965	(23.1)	(7.0)
A: Mid-Size + Exec	13,296	12,464	9,690	8,703	5,708	(57.1)	(10.2)
Total cars	341,620	291,570	305,408	271,774	216,458	(36.6)	(11.0)
B: UVs	64,115	64,501	69,827	58,984	55,226	(13.9)	(15.5)
C: Vans	49,568	49,526	53,628	43,723	40,835	(17.6)	(18.5)
Export	29,448	23,046	29,616	28,113	25,798	(12.4)	(5.1)
Total Volumes	484,751	428,643	458,479	402,594	338,317	(30.2)	(12.2)

Source: Company, Arianth Capital Markets

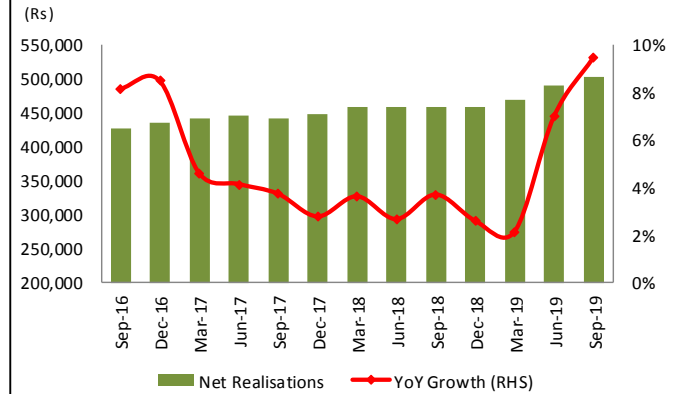
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Exhibit 1: Quarterly revenue and growth trend



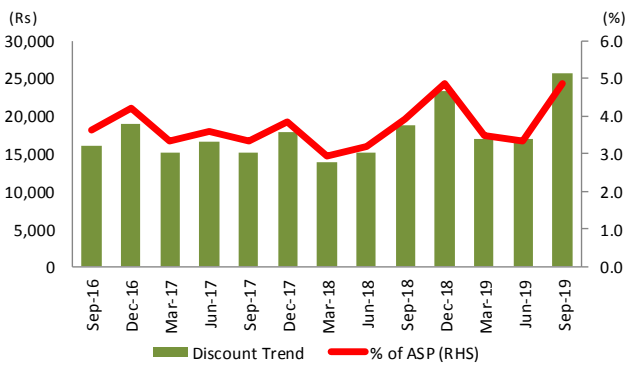
Source: Company, Aриhant Capital Markets

Exhibit 2: Quarterly realizations and growth trend



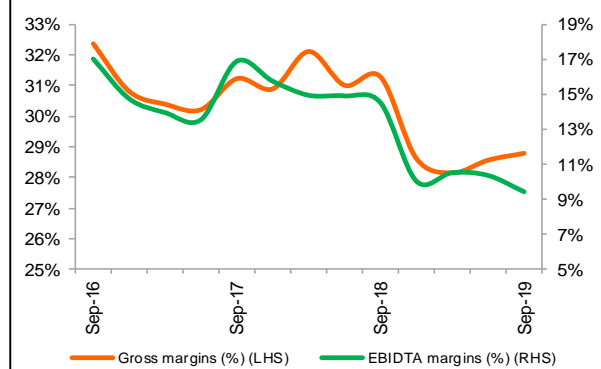
Source: Company, Aриhant Capital Markets

Exhibit 3: Quarterly discount and % of sales trend



Source: Company, Aриhant Capital Markets

Exhibit 4: Quarterly gross and EBITDA margins trend



Source: Company, Aриhant Capital Markets

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

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

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

Ratios

YE: Mar	FY17	FY18	FY19e	FY20e	FY21e
EPS (INR)	242	266	248	257	286
PER (x)	23.9	21.8	23.4	29.0	26.1
Price/Book (x)	4.8	4.2	3.8	4.4	4.0
EV/EBITDA (x)	14.4	11.7	12.7	18.3	14.2
EV/Net sales (x)	2.2	1.8	1.7	2.3	1.9
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	1.0	1.3
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
EBIDTA 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**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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