

Maruti Suzuki (MSIL IN)

Rating: BUY | CMP: Rs7,391 | TP: Rs7,809

October 24, 2019

Q2FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	7,809		7,336	
Sales (Rs. m)	790,245	964,625	777,624	949,427
% Chng.	1.6	1.6		
EBITDA (Rs. m)	83,080	114,421	82,067	112,531
% Chng.	1.2	1.7		
EPS (Rs.)	214.3	283.9	194.1	238.4
% Chng.	10.4	19.1		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	860	790	965	1,063
EBITDA (Rs. bn)	108	83	114	133
Margin (%)	12.6	10.5	11.9	12.5
PAT (Rs. bn)	74	65	86	102
EPS (Rs.)	243.6	214.3	283.9	338.0
Gr. (%)	(6.8)	(12.0)	32.5	19.1
DPS (Rs.)	80.0	125.0	140.0	160.0
Yield (%)	1.1	1.7	1.9	2.2
RoE (%)	16.7	13.7	17.2	19.0
RoCE (%)	17.7	10.9	15.0	17.7
EV/Sales (x)	2.6	2.8	2.3	2.0
EV/EBITDA (x)	20.6	26.6	19.0	16.0
PE (x)	30.3	34.5	26.0	21.9
P/BV (x)	4.8	4.6	4.3	4.0

Key Data

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52-W High / Low	Rs.7,950 / Rs.5,446
Sensex / Nifty	39,020 / 11,583
Market Cap	Rs.2,233bn / \$ 31,438m
Shares Outstanding	302m
3M Avg. Daily Value	Rs.19031.69m

Shareholding Pattern (%)

Promoter's	56.21
Foreign	23.43
Domestic Institution	15.03
Public & Others	5.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.5	5.3	9.2
Relative	5.7	5.4	(4.7)

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Record realizations despite higher discounts

Quick Pointers:

- Record realizations at Rs502k/unit (+9.5% YoY) despite higher discounts.
- Demand outlook positive with low single digit growth in Navratra festive.

Maruti Suzuki's 2QFY20 results were operationally in-line with margins came in at 9.5%. However, higher other income and lower tax rate led to a beat in PAT at Rs13.6bn (PLe: Rs11bn). Going forward, the benefit of soft RM price, cost control benefits to be partially offset by higher spends in run up to BS6.

With positive demand outlook and controlled inventory levels (even for BS4 vehicles) we believe MSIL is well placed amongst OEMs in light of, a) structural shift towards Petrol cars especially in lower CC segments and, b) with ~78% of its portfolio is skewed to Petrol making it less prone to cost increase challenges in BS6. We believe, well spread out monsoon would too auger well with rural sales accounting for ~39%. Consequently, we maintain Buy rating on the stock with revised price target of Rs7,809 (from Rs7,336). We value the stock at 24x Sep-21E EPS.

- Revenue in-line, record realizations:** Overall revenue for the quarter dipped 24% YoY / 14% QoQ to Rs169.9bn (in-line), where volumes plummeted 30% YoY / 16% QoQ over but realizations improved 9.5% YoY to Rs502k/unit. Export revenues for Q1FY20 stood at Rs12.3bn (-14% YoY and QoQ each).
- Higher promotional expense dent margins:** Absolute EBITDA declined 16.5% YoY to Rs24.4bn with EBITDA margin at 9.5% (PLe: 10%), lower 500bps YoY / 90bps QoQ. Gross margin was lower 250bps YoY (inching up 20bps QoQ) while staff costs as well as other expenses as a % of sales were higher 130bps YoY and 120bps YoY respectively.
- Other income and lower tax drive PAT:** With higher than expected non-operating income at Rs9.2bn and lower tax rate at 13.6% (PLe: 27%), net profit for MSIL stood at Rs13.6bn, lower 35% YoY / -5% QoQ (PLe: Rs11bn).
- Key takeaways from the con-call: Key takeaways from the con-call: (1)** Retails down ~22% YoY in 2QFY20 where rural sales declined at lower rate than urban. However, festive sales are looking positive with low single digit growth. **(2) Expect RM cost to go down in 3Q and 4Q. (3) Inventory level at ~30-32 days** which is expected to remain stable. BS4 stock is ~15 days (including diesel). **(4) Petrol share further increased to 77.5%** (v/s 67% for industry and 74% in Q2FY19). CNG now forming ~7% of volumes. **(5) Average discounts at Rs25,761/unit** (5.1% of ASP). **(6) Royalty rate for the quarter remained at 5.2%. (7) S-presso bookings at ~16.5k units** (~700unit/day). **(8) capex guidance maintained at Rs4bn.** (9) Effective tax rate guidance at ~23%.

Exhibit 1: Q2FY20 Result Overview (Rs m)

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Net Revenues	169,853	222,332	(23.6)	197,198	367,051	446,926	(17.9)
Raw Materials	120,994	152,849	(20.8)	140,913	261,907	307,869	(14.9)
<i>% of Net Sales</i>	<i>71.2</i>	<i>68.7</i>		<i>71.5</i>	<i>71.4</i>	<i>68.9</i>	
Personnel	8,384	7,917	5.9	8,591	16,975	15,569	9.0
<i>% of Net Sales</i>	<i>4.9</i>	<i>3.6</i>		<i>4.4</i>	<i>4.6</i>	<i>3.5</i>	
Manufacturing & Other Exp	24,412	29,253	(16.5)	27,216	51,628	57,664	(10.5)
<i>% of Net Sales</i>	<i>14.4</i>	<i>13.2</i>		<i>13.8</i>	<i>14.1</i>	<i>12.9</i>	
Total Expenditure	153,790	190,019	(19.1)	176,720	330,510	381,102	(13.3)
EBITDA	16,063	32,313	(50.3)	20,478	36,541	65,824	(44.5)
<i>EBITDA Margin (%)</i>	<i>9.5</i>	<i>14.5</i>		<i>10.4</i>	<i>10.0</i>	<i>14.7</i>	
Depreciation	9,261	7,212	28.4	9,186	18,447	14,410	28.0
EBIT	6,802	25,101	(72.9)	11,292	18,094	51,414	(64.8)
Interest Expenses	282	257	9.7	547	829	464	78.7
Non-operating income	9,200	5,266	74.7	8,364	17,564	7,984	120.0
PBT	15,720	32,110	(51.0)	19,109	34,829	60,934	(42.8)
Tax-Total	2,134	9,706	(78.0)	4,754	6,888	18,777	(63.3)
<i>Tax Rate (%) - Total</i>	<i>13.6</i>	<i>30.2</i>	<i>(55.1)</i>	<i>24.9</i>	<i>19.8</i>	<i>30.8</i>	<i>(35.8)</i>
Reported PAT	13,586	22,404	(39.4)	14,355	27,941	42,157	(33.7)
Adj. PAT	13,586	21,009	(35.3)	14,355	27,941	40,762	(31.5)

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Car Sales Volume (nos)	338,317	484,848	(30.2)	402,594	740,911	975,327	(24.0)
Net Realisation/Vehicle	502,053	458,560	9.5	489,819	495,405	458,232	8.1
Material cost / vehicle	357,635	315,251	13.4	350,013	353,493	315,657	12.0
Gross Profit / vehicle	144,418	143,309	0.8	139,806	141,912	142,575	(0.5)
Employee cost /vehicle	24,781	16,329	51.8	21,339	22,911	15,963	43.5
Other expenses / vehicle	72,157	60,334	19.6	67,602	69,682	59,123	17.9
EBITDA/vehicle	47,479	66,646	(28.8)	50,865	49,319	67,489	(26.9)
Net Profit/vehicle	40,158	43,330	(7.3)	35,656	37,712	41,793	(9.8)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	860,203	790,245	964,625	1,062,636
YoY gr. (%)	7.8	(8.1)	22.1	10.2
Cost of Goods Sold	602,542	559,110	681,578	749,936
Gross Profit	257,661	231,135	283,046	312,700
Margin (%)	30.0	29.2	29.3	29.4
Employee Cost	32,549	36,292	38,107	41,917
Other Expenses	117,119	111,763	130,518	138,002
EBITDA	107,993	83,080	114,421	132,780
YoY gr. (%)	(12.3)	(23.1)	37.7	16.0
Margin (%)	12.6	10.5	11.9	12.5
Depreciation and Amortization	30,189	31,671	39,710	37,092
EBIT	77,804	51,409	74,711	95,689
Margin (%)	9.0	6.5	7.7	9.0
Net Interest	758	1,200	1,320	1,452
Other Income	25,610	33,857	37,982	38,361
Profit Before Tax	104,656	84,066	111,374	132,597
Margin (%)	12.2	10.6	11.5	12.5
Total Tax	29,650	19,335	25,616	30,497
Effective tax rate (%)	28.3	23.0	23.0	23.0
Profit after tax	75,006	64,731	85,758	102,100
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	73,573	64,731	85,758	102,100
YoY gr. (%)	-	-	-	-
Margin (%)	8.6	8.2	8.9	9.6
Extra Ord. Income / (Exp)	1,433	-	-	-
Reported PAT	75,006	64,731	85,758	102,100
YoY gr. (%)	(2.9)	(13.7)	32.5	19.1
Margin (%)	8.7	8.2	8.9	9.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	75,006	64,731	85,758	102,100
Equity Shares O/s (m)	302	302	302	302
EPS (Rs)	243.6	214.3	283.9	338.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	264,916	310,917	350,917	390,917
Tangibles	264,916	310,917	350,917	390,917
Intangibles	-	-	-	-
Acc: Dep / Amortization	110,838	142,509	182,219	219,311
Tangibles	110,838	142,509	182,219	219,311
Intangibles	-	-	-	-
Net fixed assets	154,078	168,408	168,698	171,606
Tangibles	154,078	168,408	168,698	171,606
Intangibles	-	-	-	-
Capital Work In Progress	16,001	10,000	10,000	10,000
Goodwill	-	-	-	-
Non-Current Investments	353,068	353,068	353,068	353,068
Net Deferred tax assets	(5,640)	(5,640)	(5,640)	(5,640)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	12,082	12,082	12,082	12,082
Inventories	33,257	34,641	52,856	58,227
Trade receivables	23,104	15,155	18,500	20,379
Cash & Bank Balance	1,789	11,539	46,451	92,773
Other Current Assets	26,539	26,539	26,539	26,539
Total Assets	625,044	636,558	693,320	749,801
Equity				
Equity Share Capital	1,510	1,510	1,510	1,510
Other Equity	459,905	479,249	514,172	558,176
Total Networth	461,415	480,759	515,683	559,687
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,496	1,496	1,496	1,496
Trade payables	96,330	88,767	108,355	119,365
Other current liabilities	60,163	59,896	62,146	63,613
Total Equity & Liabilities	625,044	636,558	693,320	749,801

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	104,656	84,066	111,374	132,597
Add. Depreciation	30,189	31,671	39,710	37,092
Add. Interest	758	1,200	1,320	1,452
Less Financial Other Income	25,610	33,857	37,982	38,361
Add. Other	(25,047)	(33,857)	(37,982)	(38,361)
Op. profit before WC changes	110,556	83,080	114,421	132,780
Net Changes-WC	(13,196)	(1,265)	278	5,227
Direct tax	(31,428)	(19,335)	(25,616)	(30,497)
Net cash from Op. activities	65,932	62,480	89,084	107,510
Capital expenditures	(47,000)	(40,000)	(40,000)	(40,000)
Interest / Dividend Income	-	-	-	-
Others	11,617	33,857	37,982	38,361
Net Cash from Inv. activities	(35,383)	(6,143)	(2,018)	(1,639)
Issue of share cap. / premium	-	-	-	-
Debt changes	388	-	-	-
Dividend paid	(29,134)	(45,388)	(50,834)	(58,096)
Interest paid	(732)	(1,200)	(1,320)	(1,452)
Others	-	-	-	-
Net cash from Fin. activities	(29,478)	(46,588)	(52,154)	(59,548)
Net change in cash	1,071	9,749	34,912	46,322
Free Cash Flow	18,932	22,480	49,084	67,510

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	196,683	214,594	197,198	169,853
YoY gr. (%)	2.0	1.4	(12.2)	(23.6)
Raw Material Expenses	140,437	154,236	140,913	120,994
Gross Profit	56,246	60,358	56,285	48,859
Margin (%)	28.6	28.1	28.5	28.8
EBITDA	19,311	22,634	20,478	16,063
YoY gr. (%)	(36.4)	(24.9)	(38.9)	(50.3)
Margin (%)	9.8	10.5	10.4	9.5
Depreciation / Depletion	7,677	8,102	9,186	9,261
EBIT	11,634	14,532	11,292	6,802
Margin (%)	5.9	6.8	5.7	4.0
Net Interest	206	88	547	282
Other Income	9,173	8,677	8,364	9,200
Profit before Tax	20,601	23,121	19,109	15,720
Margin (%)	10.5	10.8	9.7	9.3
Total Tax	5,708	5,165	4,754	2,134
Effective tax rate (%)	27.7	22.3	24.9	13.6
Profit after Tax	14,893	17,956	14,355	13,586
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	14,893	17,956	14,355	13,586
YoY gr. (%)	(17.2)	(15.8)	(27.3)	(33.4)
Margin (%)	7.6	8.4	7.3	8.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	14,893	17,956	14,355	13,586
YoY gr. (%)	(17.2)	(4.6)	(27.3)	(39.4)
Margin (%)	7.6	8.4	7.3	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	14,893	17,956	14,355	13,586
Avg. Shares O/s (m)	302	302	302	302
EPS (Rs)	49.3	59.4	47.5	45.0

Source: Company Data, PL Research

Key Financial Metrics

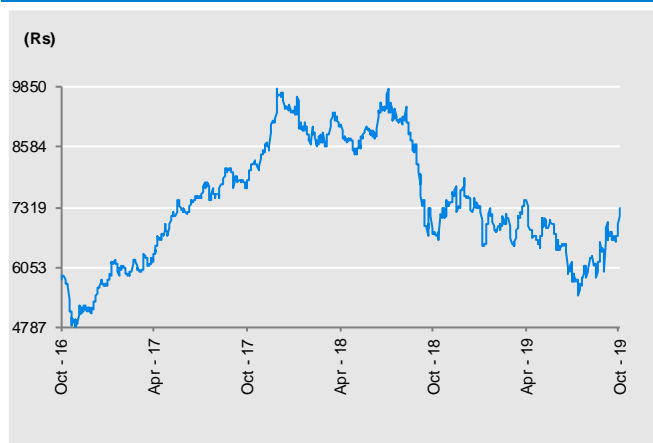
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	243.6	214.3	283.9	338.0
CEPS	343.5	319.1	415.3	460.8
BVPS	1,527.5	1,591.5	1,707.1	1,852.8
FCF	62.7	74.4	162.5	223.5
DPS	80.0	125.0	140.0	160.0
Return Ratio(%)				
RoCE	17.7	10.9	15.0	17.7
ROIC	13.1	8.8	13.0	17.0
RoE	16.7	13.7	17.2	19.0
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.2)
Net Working Capital (Days)	(17)	(18)	(14)	(14)
Valuation(x)				
PER	30.3	34.5	26.0	21.9
P/B	4.8	4.6	4.3	4.0
P/CEPS	343.5	319.1	415.3	460.8
EV/EBITDA	20.6	26.6	19.0	16.0
EV/Sales	2.6	2.8	2.3	2.0
Dividend Yield (%)	1.1	1.7	1.9	2.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Volume (units)	1,862,448	1,621,310	1,868,774	2,002,104
Net realisation (Rs/unit)	445,792	467,727	495,670	508,990

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	BUY	6,842	6,754
2	26-Jul-19	BUY	6,842	5,806
3	4-Jul-19	BUY	7,100	6,544
4	5-Apr-19	BUY	7,600	7,108
5	28-Jan-19	BUY	7,600	6,513
6	7-Jan-19	BUY	8,510	7,362
7	25-Oct-18	BUY	8,510	6,723

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Hold	75	68
2	Bajaj Auto	Reduce	2,922	3,163
3	Bharat Forge	Hold	430	424
4	CEAT	Sell	827	970
5	Eicher Motors	Reduce	15,800	18,285
6	Exide Industries	Accumulate	209	196
7	Hero Motocorp	Accumulate	2,856	2,713
8	Mahindra & Mahindra	Hold	563	563
9	Maruti Suzuki	BUY	6,842	6,754
10	Motherson Sumi Systems	Accumulate	111	99
11	Tata Motors	Hold	139	122
12	TVS Motors	Hold	439	446

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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