

Sector: Automobiles
Result Update

| | |
|---|--------|
| | Change |
| Reco: Hold | ↔ |
| CMP: Rs. 7,390 | |
| Price Target: Rs. 7,500 | ↑ |
| ↑ Upgrade ↔ No change ↓ Downgrade | |

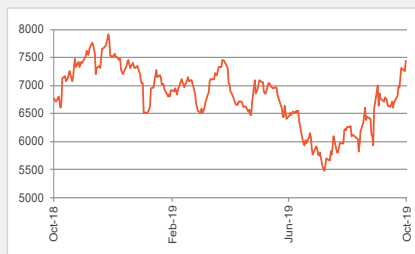
Company details

| | |
|----------------------------|------------------|
| Market cap: | Rs. 223,249 cr |
| 52-week high/low: | Rs. 7,929 / 5447 |
| NSE volume: (No of shares) | 11.6 lakh |
| BSE code: | 532500 |
| NSE code: | MARUTI |
| Sharekhan code: | MARUTI |
| Free float: (No of shares) | 13.2 cr |

Shareholding (%)

| | |
|-------------------|-------|
| Promoters | 56.2% |
| Institutions | 15.0% |
| Foreign | 23.4% |
| Public and Others | 5.3% |

Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|-----|------|-----|------|
| Absolute | 7.9 | 28.4 | 7.0 | 11.4 |
| Relative to Sensex | 7.8 | 24.5 | 4.7 | -4.8 |

Sharekhan Research, Bloomberg

Maruti Suzuki Ltd (MSIL) Q2 FY20 results were ahead of our as well as consensus estimates on operating margins as well profitability front. MSIL posted better than expected operating margins due to cost control measures such as productivity improvement measures, controlling cost overheads and increased localisation. Further, a steep surge in other income on account of fair value gain on investments & lower tax due to adoption of new corporate tax structure led to profit beat. While the management has indicated a marginal positive growth in the festive season of October, sustenance of growth post festivities still remains a challenge. MSIL believes that the festive growth was supported by higher discounting and a sustained demand improvement would still take time. We expect PV industry to remain muted in the near term. Hence we retain a Hold rating on the stock with a revised PT of Rs 7,500.

Key positives

- MSIL other income at Rs 920 cr grew a robust 75% y-o-y and was ahead of our estimates. Higher fair value gain on an invested surplus boosted other income.
- Tax rate (Tax/PBT) of 13.6% was lower than our estimates. Adoption of new tax regime led to a lower tax rate during the quarter
- MSIL inventory levels stood at 30-32 days which is very close to the normalized inventory.

Key negatives

- MSIL volumes dropped steeply 30% yoy driven by a 32% drop in the domestic demand. Weak consumer sentiment and increased cost of ownership led to a volume decline
- MSIL lost market share in the PV space. Market share dropped from 51.7% in Q2FY2019 to 48.4% in Q2FY20.

Our Call

Demand recovery unlikely in near term; Retain Hold: PV industry has been under pressure on the back of slowing economic growth and steep increase in cost of ownership. The industry demand is unlikely to improve in the near term and we expect muted volumes over the next two to three quarters. We have retained our earnings estimates for FY2021. Recent run up in the stock price (12% in past one month) is led by probability of personal income tax cut. However given muted earnings CAGR of 2% over FY2019-2021 period, we maintain Hold rating on the stock with revised PT of Rs 7,500. Stock is already trading at rich valuations of 29x FY21 earnings leaving limited scope of upside from current levels.

Key Risks

Prolonged weakness in the PV industry demand could impact the financials of the company.

| Valuation | Rs cr | | | |
|---------------|--------|----------|----------|----------|
| Particulars | FY18 | FY19 | FY20E | FY21E |
| Net sales | 79,763 | 86,020.3 | 82,624.1 | 89,045.2 |
| Growth (%) | 17.2 | 7.8 | -3.9 | 7.8 |
| EBITDA | 12,062 | 10,999 | 9,349 | 10,756 |
| EBITDA % | 15.1 | 12.8 | 11.3 | 12.1 |
| PAT | 7,722 | 7,500.6 | 6,564.2 | 7,681.7 |
| Growth (%) | 5.1 | -2.9 | -12.5 | 17.0 |
| FD EPS (INR) | 255.6 | 248.3 | 217.3 | 254.3 |
| P/E (x) | 28.9 | 29.8 | 34.0 | 29.1 |
| P/B (x) | 5.3 | 4.8 | 4.4 | 3.9 |
| RoE (%) | 18.5 | 16.3 | 12.9 | 13.5 |
| RoCE (%) | 24.8 | 20.8 | 16.1 | 17.0 |
| EV/Sales(x) | 2.8 | 2.5 | 2.2 | 2.0 |
| EV/EBITDA (x) | 18.4 | 19.8 | 19.7 | 16.6 |

Source: Company; Sharekhan estimates

Operating results ahead of estimates; higher other income and lower tax leads to PAT beat: MSIL results were ahead of our as well as street estimates driven by better than anticipated margins, higher other income and a reduction in tax rates. Revenues dropped 24% y-o-y driven by 30% drop in the volumes. Realisation improved by ~7% driven by price hikes and higher share of BS6 variants. OPM dropped by a steep 580 bps y-o-y driven by negative operating leverage, higher discounting and adverse currency movement. However operating margins at 9.5% was better than our estimates of 8.7% driven by cost control measures. Other income rose sharply 75% y-o-y to Rs 920 cr (ahead of our estimates) driven by higher fair value gain on invested surplus. Moreover, Maruti's tax rate dropped sharply (Tax/PBT of 14%) driven by adoption of new corporate tax regime which further boosted profitability. Net Profit at Rs 1,359 cr was ahead of our estimates of Rs 935 cr.

Demand recovery unlikely in near term: PV industry demand has been under pressure declining for the past five consecutive quarters. Slowing economic growth coupled with an increased cost of ownership in the form of mandatory third party insurance, safety norms and steep increase in road taxes in key states have dampened the consumer sentiments. While MSIL indicated a marginal growth in the festive period, the management is not confident of sustaining the growth momentum. MSIL believes that marginal growth seen in the festive season was on account of higher discounts and a sustained demand improvement would take time. We believe that PV industry demand growth is likely to remain muted and demand recovery is unlikely in the near term.

Concall highlights

Festive demand: MSIL indicated that the retail festive demand (Navratra and Dusherra) showed marginal growth on a y-o-y basis.

Inventory levels: MSIL indicated that the inventory levels currently stand at 30-32 days which are near normal levels.

Near term demand outlook: The management indicated that while the festive demand is showing small positive growth, but the sustainability of the same beyond the festive season is not certain and the same needs to be monitored.

BS 6 transition: MSIL has been the leader in transition to BS6 emission norms with 8 models already being introduced with the BS variants. In fact about 70% of the sales of petrol models come from BS 6 variants.

Discounting: Discounting per vehicle reached multi-year high levels of Rs 25,761/vehicle. This compares with Rs 18,750/vehicle in Q2FY19

Commodities: The management indicated that a large benefit of recent commodity softening would be realized in margins in Q3FY2020

Share of petrol variants: Share of petrol variants for MSIL increased from 74.2% in Q2FY2019 to 77.5% in Q2FY20.

Financing: Share of financing stood at ~80% which is similar to levels seen recently. However management indicated slight improvement in level of financing.

| Results | | | | | Rs cr | |
|--------------------|----------|----------|-----------|----------|----------|--|
| Particulars | Q2FY20 | Q2FY19 | YoY % | Q1FY20 | QoQ % | |
| Revenues | 16,985.3 | 22,433.2 | -24.3 | 19,719.8 | -13.9 | |
| EBIDTA | 1,606.3 | 3,431.3 | -53.2 | 2,047.8 | -21.6 | |
| EBIDTA Margins (%) | 9.5 | 15.3 | (580) bps | 10.4 | (90) bps | |
| Depreciation | 926.1 | 721.2 | 28.4 | 918.6 | 0.8 | |
| Interest | 28.2 | 25.7 | 9.7 | 54.7 | -48.4 | |
| Other Income | 920.0 | 526.6 | 74.7 | 836.4 | 10.0 | |
| PBT | 1,572.0 | 3,211.0 | -51.0 | 1,910.9 | -17.7 | |
| Tax | 213.4 | 970.6 | -78.0 | 475.4 | -55.1 | |
| Adjusted PAT | 1,358.6 | 2,240.4 | -39.4 | 1,435.5 | -5.4 | |
| EPS | 45.0 | 74.2 | -39.4 | 47.5 | -5.4 | |

Source: Company; Sharekhan Research

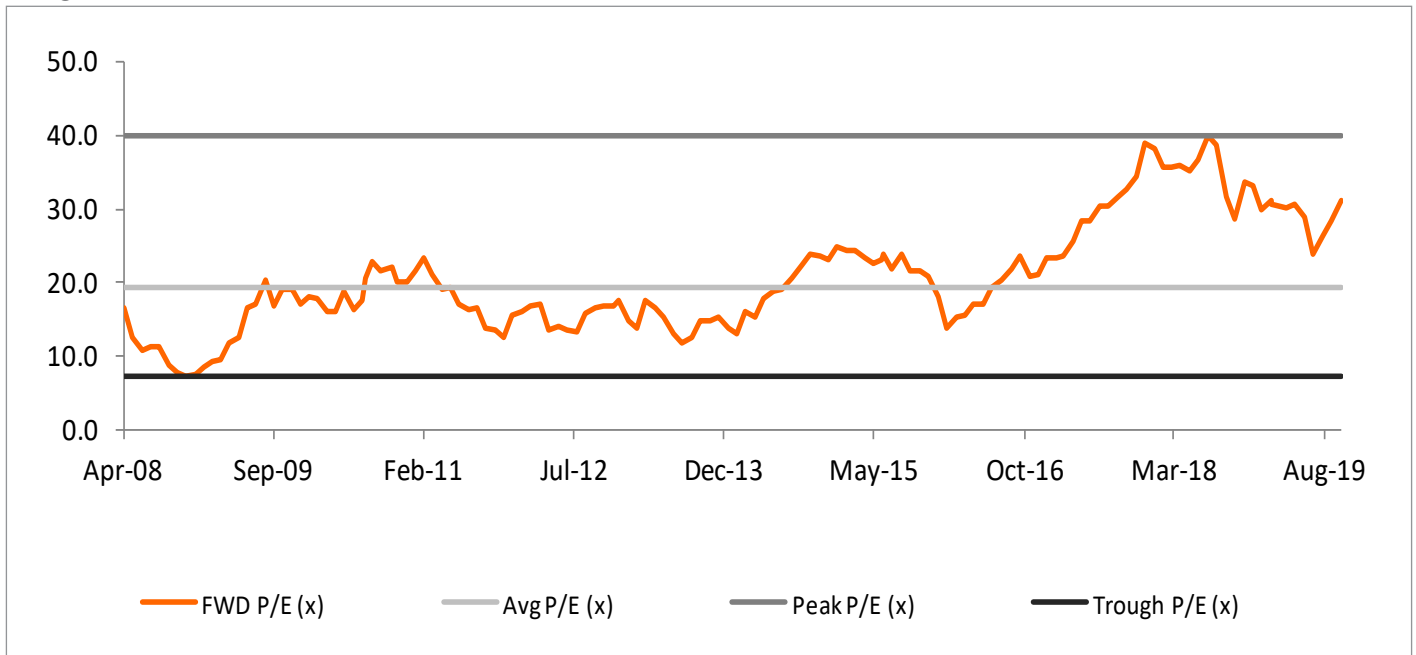
Outlook

Demand pressures to sustain in the near term; expect muted earnings over FY19-21: PV industry demand is not expected to recover in the near term given the weak consumer sentiments and increased cost of ownership. We expect muted 2% earnings CAGR over FY2019-2021 period.

Valuation

Retain estimates; Maintain Hold with revised PT of Rs 7,500: We have retained our earnings estimates for MSIL. Demand environment is expected to remain challenging in the near term. Post the sharp 12% run up in the past one month, stock is trading at rich valuations of 29x FY21 earnings, leaving limited scope of upside from current levels. We retain Hold rating on the stock with a revised PT of Rs 7,500.

One year forward P/E band



Source: Sharekhan Research

About company

MSIL is the market leader in the PV segment, commanding a market share of about 50%. In the PV segment, MSIL's market share in passenger cars stands at 58%, utility vehicles at 28% and vans at 82%. Petrol vehicles contribute about 75% to sales, whilst the contribution of diesel vehicles stands at 25%. MSIL has been steadily ramping up its presence in the hinterlands, with rural sales currently contributing about 30% to overall sales.

Investment theme

MSIL is the market leader in the PV segment with a 50% market share. The PV industry is passing through a phase of agony, wherein weak consumer buying sentiment, liquidity crunch, slow economic growth and cost pressures have dented overall performance. Further, heightened competitive intensity due to new launches by competition, elevated inventory levels and cost increase due to BS6 norms would exert demand pressures. We expect MSIL's earnings to decline in FY2020.

Key Risks

- ◆ MSIL is exposed to forex risks as raw material and royalty payment are payable in Yen. About 20-21% of revenue is exposed to INR-YEN movement and any adverse movement can impact margins.
- ◆ The parent company would manufacture and supply products from MSIL's portfolio to Toyota India. This would enhance competition for MSIL.
- ◆ Rollout of BS6 version and upgraded safety features can result in phase out of certain models especially entry-level diesel variants, which would impact sales.
- ◆ Any measures announced by the government to boost sales would be key positive and pose as risk.

Additional Data

Key management personnel

| | |
|-----------------|--|
| R C Bhargava | Chairman |
| Kenichi Ayukawa | Managing Director & CEO |
| A Seth | Sr Executive Officer (Finance) |
| R S Kalsi | Sr Executive Officer (Marketing & Sales) |

Source: Annual report

Top 10 shareholders

| Sr. No. | Holder Name | Holding (%) |
|---------|----------------------------------|-------------|
| 1 | Suzuki Motor Corp | 56.2 |
| 2 | Life Insurance Corp of India | 6.8 |
| 3 | Blackrock Inc | 1.4 |
| 4 | Vanguard Group Inc | 1.4 |
| 5 | Capital group companies | 1.3 |
| 6 | GIC Pte | 1.1 |
| 7 | SBI Funds Management Pvt Limited | 1.1 |
| 8 | JP Morgan Chase | 1.0 |
| 9 | Nomura Holdings | 1.0 |
| 10 | UTI Asset Management Co | 0.8 |

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. 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. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.