Sharekhan
by BNP PARIBAS

Maruti Suzuki India

Weak near term outlook; recovery to take time

Sector: Automobiles
Result Update

	Change
Reco: **Hold**	↔
CMP: **Rs. 5,035**	
Price Target: **Rs. 5,500**	↔

↑ Upgrade ↔ No change ↓ Downgrade

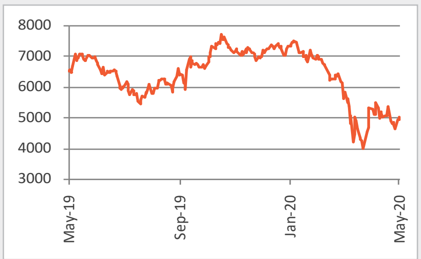
Company details

Market cap:	Rs. 152,105 cr
52-week high/low:	Rs. 7,755/4,002
NSE volume: (No of shares)	8.5 lakh
BSE code:	532500
NSE code:	MARUTI
Sharekhan code:	MARUTI
Free float: (No of shares)	13.2 cr

Shareholding (%)

Promoters	56.2
FII	23.4
DII	15.6
Others	4.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.2	-27.2	-29.4	-23.4
Relative to Sensex	-6.5	-4.8	-7.6	-9.1

Sharekhan Research, Bloomberg

Maruti Suzuki India Limited's (MSIL) Q4FY2020 results were lower than our as well as consensus estimates. MSIL posted lower-than-expected margins on account of subdued capacity utilisation and higher discounts. Volumes are expected to remain under pressure in the near term due to weak consumer sentiment and subdued economic activity because of COVID-19. Demand normalisation would take time as pick-up in economic activity and consumer sentiments would be gradual. Hence, we retain our Hold rating on the stock with an unchanged price target (PT) of Rs. 5,500.

Key positives

- MSIL has restarted partial manufacturing operations at Manesar plant from yesterday and would restart production at Gurugram plant from next week.
- MSIL is also restarting dealerships gradually and has reopened about 1,000 dealers pan India.
- Other income for the quarter grew marginally to Rs. 823 crore and was higher than our estimates.

Key negatives

- MSIL had one-time impact related to BS4 products discontinuation. The impact on account of this was Rs. 125 crore during the quarter.
- Discounting per vehicle continues to remain high with average per vehicle discounts rising to Rs. 19,051 per vehicle in Q4FY2020 (higher by 26 % y-o-y).

Our Call

Demand to be under pressure in the near term; Valuations at the higher end of historical average; Retain Hold: Demand is expected to be under pressure for the next two to three quarters, driven by weak consumer sentiments and subdued economic activity on account of COVID-19 outbreak. Recovery would take time as economic activity and consumer sentiment would improve gradually. To factor lower than expected results and weak sentiments due to COVID-19, we have cut our FY2021 estimates by 15%. We have retained our FY2022 earnings estimates, as we expect pent-up demand and gradual recovery in the economy to lead to improvement in FY2022 volumes. Moreover, margin performance would improve once volume picks up. At the CMP, the stock is trading at 23.5x its FY2022 earnings, which is at the higher end of the long-term historical average, leaving limited scope of upside from current levels. Hence, we retain our Hold rating on the stock with an unchanged PT of Rs. 5,500.

Key Risks

- Prolonged Coronavirus infection in India and weak consumer sentiments; and
- increased competition from MNC players can impact market share.

Valuation Rs cr

Particulars	FY18	FY19	FY20E	FY21E	FY22E
Net sales	79762.7	86020.3	75610.6	63657.5	78205.6
Growth (%)	17.2	7.8	-12.1	-15.8	22.9
EBITDA	12061.5	10999.3	7302.6	6066.1	8810.9
EBIDTA %	15.1	12.8	9.7	9.5	11.3
PAT	7721.8	7500.6	5650.6	4459.9	6485.0
Growth (%)	5.1	-2.9	-24.7	-21.1	45.4
FD EPS (INR)	255.6	248.3	187.1	147.6	214.7
P/E (x)	19.7	20.3	26.9	34.1	23.5
P/B (x)	3.6	3.3	3.0	2.8	2.6
RoE (%)	18.5	16.3	11.2	8.3	11.1
RoCE (%)	24.8	20.8	13.2	9.8	13.3
EV/Sales(x)	1.9	1.7	1.5	1.8	1.4
EV/EBITDA (x)	12.5	13.4	15.5	18.4	12.2

Source: Company; Sharekhan estimates

Operating results below estimates: MSIL's Q4FY2020 operating results were lower than our as well street expectations mainly due to miss on operating profit margin (OPM). The company's revenue dipped by 15% y-o-y, driven by 16% y-o-y drop in volumes, in line with expectations. However, MSIL posted OPM of 8.5%, which was lower than our as well as street expectations of 10.3-10.9%. MSIL had one-time exceptional charge of Rs. 125 crore on account of discontinuation of BS4 products. Even adjusting for one-time impact, OPM stood at 9.2%, which is still lower than our as well as street estimates. Subdued capacity utilisation (owing to weak demand) and higher discounting led to steep fall in margins. Other income at Rs. 880 crore grew marginally on a y-o-y basis and was better than our estimates. Higher other income helped to offset poor operating performance to some extent. Net profit dropped by 28% y-o-y to Rs. 1,292 crore and was lower than our estimate of Rs. 1,386 crore.

Demand to remain under pressure in the near term; Sustained recovery to take time: Outbreak of COVID-19 outbreak led the Central Government to impose lockdown from March 23, 2020. April 2020 witnessed zero sales for the passenger vehicle (PV) industry due to the lockdown. While the lockdown still continues, the government has provided relaxations and manufacturing industries and businesses are resuming partial operations from May 2020. Economic activity continues to remain low and weak consumer sentiment would weigh on PV demand in the near term. Consumer sentiments would take time to recover and PV players are expecting demand to revive in H2FY2021 with the onset of the festive season. We expect demand to remain weak over the next two to three quarters. We believe sustained recovery would take time.

Key concall highlights:

Production update: MSIL stated that Manesar plant started production yesterday with partial capacity and Gurugram plant is slated to restart operations next week. Gujarat plant production will not be restarted in the near term on account of higher impact of COVID-19 in that region.

Dealerships: MSIL is gradually opening up its dealerships post relaxations provided by the Central Government. The company has opened 1,000 dealerships so far and has already delivered 2,500 cars. MSIL stated that cashflow is the main problem faced by its dealerships currently and MSIL is supporting dealers by providing financing support for the dealer stock. The company is also making cash payments to dealers for sales to provide liquidity support in the near term.

Supply chain: MSIL stated it has about 400 Tier-1 suppliers and 3,000 Tier-2 suppliers spread over nine states. MSIL indicated that it is hopeful that government would provide further relaxations for vendor operations and expects component supplies to increase gradually.

Demand outlook: MSIL did not provide demand outlook for FY2021. As per management, COVID-19 has created lot of uncertainties and, hence, demand projection was difficult.

Preference for personal transport: Management indicated people will prefer personal transportation in post COVID-19 era, which is likely to increase demand for cars in the long run.

Diesel segment: MSIL indicated the share of diesel vehicles has been continuously falling due to the narrowing price differential between diesel and petrol. The share of diesel vehicles in the PV industry fell from 37% in FY2019 to 29% in FY2020. With increasing price differential between petrol and diesel vehicles under BS6 (diesel cars will become costlier), MSIL expects share of diesel vehicles to fall further.

Discounting: MSIL indicated that discounting continues to remain elevated. The company's discounting/vehicle stood at Rs. 19,051 per vehicle as of Q4FY2020 as compared to Rs. 15,124 per vehicle in Q4FY2019.

Capex: MSIL has reduced FY2021 capex in wake of weak demand environment in the near term. MSIL intends to spend Rs. 2,700 crore in FY2021 as against Rs. 3,250 crore spent in FY2020. However, management stated that essential project capex will not be cut.

Results Rs cr

Particulars	Q4FY20	Q4FY19	%YoY	Q3FY20	%QoQ
Revenue	18,198.7	21,459.4	-15.2	20,706.8	-12.1
EBIDTA	1,546.4	2,263.4	-31.7	2,102.1	-26.4
EBIDTA Margin (%)	8.5	10.5	(200 bps)	10.2	(170 bps)
Depreciation	823.0	810.2	1.6	858.0	-4.1
Interest	28.3	8.8	221.6	21.7	30.4
Other Income	880.4	867.7	1.5	784.0	12.3
PBT	1,575.5	2,312.1	-31.9	2,006.4	-21.5
Tax	283.8	516.5	-45.1	441.6	-35.7
Adjusted PAT	1,291.7	1,795.6	-28.1	1,564.8	-17.5
EPS (Rs.)	42.8	59.4	-28.1	51.8	-17.5

Source: Company; Sharekhan Research

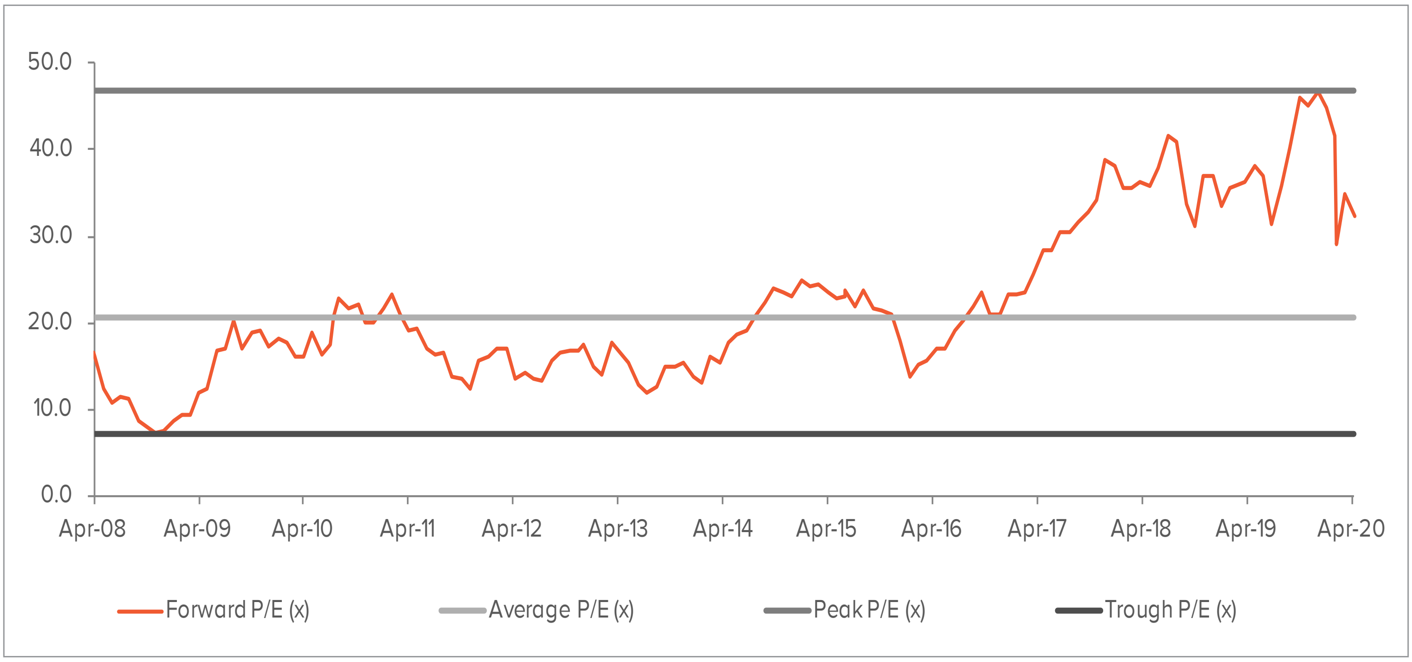
Outlook

Demand to dip in FY2021; Recovery to take time: FY2021 is expected to be weak with expectations of volume drop for the PV industry. Slowing economic growth and weak consumer sentiments due to COVID-19 would impact FY2021 demand. We expect recovery to take time as economic activity and consumer sentiment would recover gradually.

Valuation

Cut FY2021 estimates; Broadly retain FY2022 estimates; Retain Hold with unchanged PT of Rs. 5,500: MSIL's Q4FY2020 results were lower than our as well as street estimates. Moreover, consumer sentiments are expected to remain weak in the near term due to COVID-19 outbreak. To factor the above, we have cut our FY2021 estimates by 15%. We have retained our FY2022 earnings estimates, as we expect pent-up demand and gradual recovery in the economy to lead to recovery in FY2022 volumes. Moreover, margin performance would improve once volume picks up. At the CMP, the stock is trading at 23.5x its FY2022 earnings, which is at the higher end of the long-term historical average, leaving limited scope of upside from current levels. Hence, we retain our Hold rating on the stock with an unchanged PT of Rs. 5,500.

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 demand is under pressure due to weak consumer buying sentiment and subdued economic growth on account of outbreak of COVID-19. Sales are expected to remain under pressure in the near term as economic growth and business activity would take time and recovery would be gradual. Also, heightened competitive intensity due to new launches by competition is likely to impact MSIL volumes.

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.

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: Company Website

Top 10 shareholders

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

Source: Bloomberg

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