

Maruti Suzuki

Improving outlook

While Maruti reported a loss of Rs 2.5bn in 1QFY21, impacted by COVID and constrained production, the outlook is encouraging as demand has returned to ~85% of pre-COVID levels currently. While the company has ramped up production to 4,000 units/day, the OEM remains constrained for supply due to the limited activity at the Gujarat plant. Maruti is benefitting from its entry-level portfolio as customers are turning towards the use of personal mobility in the current environment. The share of first-time buyers has risen by ~5% (from 45% in 4QFY20). Further, the OEM's strategy of exiting the diesel segment is working as gasoline and diesel fuel prices have levelled off in Delhi/substantially narrowed in other regions. Reiterate Maruti as our top pick in the sector. Maintain BUY with a revised target price of Rs 6,980 at 25x Jun-22E EPS (~15% premium to the long-term historic trading multiple). Key risk: An increase in competitive intensity.

- **1QFY21 financials:** Revenue declined 79% YoY to Rs 41bn due to an 81% decline in overall volumes. Wholesale volumes for the quarter were 76.6k, and retail volumes were 119k units. The company reported an EBITDA loss of Rs 8.6bn due to the COVID impact. Higher other income (Rs 13bn vs Rs 8.3bn YoY) partially offset the above. MSIL reported a loss of Rs 2.5bn.
- **Call takeaways:** (1) **Positive demand outlook:** Inquiries are currently at 85-90% of pre-COVID levels. In Jun-20, several regions witnessed positive YoY growth in retails. Demand in top-10 cities (36% of demand) is gradually expected to improve as COVID cases are levelling off. (2) **Drop in replacement demand:** Replacement demand (dropped from 25% to 16%) is impacted as consumers are using their existing vehicles for longer. (3) **Diesel share is shrinking:** Share of diesel vehicles for the industry fell to 20.6% in 1QFY21 vs. 29.5% YoY, which is benefiting Maruti as it has exited this segment. Mid-end/high-end SUVs are primarily diesel-powered due to the higher torque requirements. (4) **Production ramp-up:** Currently, the OEM manufactures 4000+ units/day across its Haryana and Gujarat (single-shift) plants. As the Gujarat plant starts with the second shift in mid-Aug20, Maruti will produce an incremental 900 units per day.

Financial Summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	41,065	197,198	(79.2)	181,987	(77.4)	860,203	756,106	630,787	744,176	878,020
EBITDA	(8,634)	20,478	NA	15,464	NA	109,993	73,026	51,725	89,748	114,494
APAT	(2,494)	14,355	NA	12,917	NA	75,006	56,506	44,071	78,993	99,920
Adj. EPS (Rs)	(8.3)	47.5	NA	42.8	NA	248.4	187.1	145.9	261.6	330.9
APAT Growth (%)						(2.9)	(24.7)	(22.0)	79.2	26.5
P/E (x)						24.9	33.1	42.4	23.6	18.7
RoE (%)						17.1	11.7	8.5	14.1	16.1

Source: Company, HSIE Research

Change in Estimates

Rs mn	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	630,787	744,176	643,540	749,205	(2)	(1)
EBITDA	51,725	89,748	54,701	90,354	(5)	(1)
EBITDA Margin (%)	8.2	12.1	8.5	12.1	-30 bps	0 bps
PAT	44,071	78,993	44,090	76,214	(0)	4
EPS	145.9	261.6	146.0	252.4	(0)	4

Source: HSIE Research

BUY

CMP (as on 29 July 2020)	Rs 6,186
Target Price	Rs 6,980
NIFTY	11,203

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 6,750	Rs 6,980
	FY21E	FY22E
EPS %	0%	4%

KEY STOCK DATA

Bloomberg code	MSIL IN
No. of Shares (mn)	302
MCap (Rs bn) / (\$ mn)	1,869/25,017
6m avg traded value (Rs mn)	8,673
52 Week high / low	Rs 7,759/4,001

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.0	(11.8)	11.2
Relative (%)	5.7	(4.2)	10.2

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	56.3	56.3
FIs & Local MFs	16.7	17.1
FPIs	21.6	21.5
Public & Others	5.4	5.2
Pledged Shares	0.0	0.0

Source : BSE

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Disclosure:

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