

Disappointing numbers, Valuation leaves little upside

- Maruti Suzuki's (MSIL) Q1FY21 result outcome was disappointing with significantly higher EBITDA loss of Rs.8.6bn (vs estimated loss of Rs 2.62bn) due to higher discounts (Rs.25,000/vehicle) and negative operating leverage.
- While PVs demand is back to 85-90% of pre-COVID level, the management believes broad-based recovery is still elusive as it is difficult to predict if the current demand is pent up in nature. Majority of customers are first-time buyers for entry segment cars. Currently, replacement demand is weak as buyers are postponing discretionary purchases.
- While macro level deterioration, supply chain disruption (current production is 4,000 vehicle/day) and falling discretionary sentiment remain overhangs, the company's strong rural presence (~40% of sales) and low system inventory (85,000 vehicle/25 days), provides near term hope for volume recovery in festive season.
- We believe MSIL is best positioned to tap the domestic PV recovery with (1) product positioning (continued market dominance in the entry-level car segment) (2) strong rural presence and 3) network strength. Management is also aggressively working towards reducing fixed cost, model development cost and increase localization. Moreover, the strong balance sheet will help tide over the COVID-led disruption.
- We roll forward our estimates to 24x FY23EPS, and increase the TP to Rs 6520. However, we change our rating from Accumulate to Reduce, owing to the constraint of rich valuations (27/23x for FY22/23E EPS, 20% premium over its 5-year historical multiple).

Best positioned to tap PVs recovery

Near term outlook remains clouded due to ongoing COVID pandemic with both demand and supply remaining uncertain. Having said that we continue to remain optimistic for MSIL owing to 1) increasing traction for personal mobility and shift in trend towards entry level cars, 2) Higher rural exposure (accounts for 40% volume) where impact of COVID is relatively lower and farm incomes are expected to be better with better Rabi yield, higher MSPs and normal monsoon and 3) Dealer financials remains healthy owing to strong service income, to aid retails as and when demand picks up.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	41,065	1,97,198	(79.2)	1,81,987	(77.4)
Total Expense	49,699	1,76,720	(71.9)	1,66,523	(70.2)
EBITDA	(8,634)	20,478	(142.2)	15,464	(155.8)
Depreciation	7,833	9,186	(14.7)	8,230	(4.8)
EBIT	(16,467)	11,292	(245.8)	7,234	(327.6)
Other Income	13,183	8,364	57.6	8,804	49.7
Interest	173	547	(68.4)	283	(38.9)
EBT	(3,457)	19,109	(118.1)	15,755	(121.9)
Tax	(963)	4,754	(120.3)	2,838	(133.9)
RPAT	(2,494)	14,355	(117.4)	12,917	(119.3)
APAT	(2,494)	14,355	(117.4)	12,917	(119.3)
			(bps)		(bps)
Gross Margin (%)	28.5	28.5	(5)	29.7	(122)
EBITDA Margin (%)	(21.0)	10.4	(3141)	8.5	(2952)
NPM (%)	(6.1)	7.3	(1335)	7.1	(1317)
Tax Rate (%)	27.9	24.9	298	18.0	984
EBIT Margin (%)	(40.1)	5.7	(4583)	4.0	(4407)

CMP	Rs 6,185
Target / Upside	Rs 6,520 / 5%
BSE Sensex	38,030
NSE Nifty	11,203

Scrip Details

Equity / FV	Rs 1,510mn / Rs 5
Market Cap	Rs 1,868bn
	US\$ 25bn
52-week High/Low	Rs 7,759/Rs 4,001
Avg. Volume (no)	17,01,640
NSE Symbol	MARUTI
Bloomberg Code	MSIL IN

Shareholding Pattern Jun'20(%)

Promoters	56.3
MF/Banks/FIs	17.7
FIIIs	21.5
Public / Others	4.6

Valuation (x)

	FY21E	FY22E	FY23E
P/E	50.9	26.6	22.8
EV/EBITDA	30.1	15.3	12.1
ROE (%)	7.4	13.2	14.0
RoACE (%)	7.3	12.9	13.8

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	6,24,061	7,82,799	8,76,769
EBITDA	48,793	92,195	1,11,880
PAT	36,717	70,341	82,048
EPS (Rs.)	121.5	232.9	271.6

Analyst: Abhishek Jain

Tel: +9122 40969739

E-mail: abhishekj@dolatcapital.com

Associate: Kripashankar Maurya

Tel: +91 22 40969741

kripashankarm@dolatcapital.com

Dealership strength provides an edge over peers

With the robust network of dealers, Maruti is expected to do better than competitors on all fronts (resumption of supply and gaining market share) despite shortage of labours and other logistical issues. Dealer survival is the key during this crisis and service revenue will help dealers to sail through this tough time. We believe MSIL's dealers are in a better position with more than 50% market share in the PV market. Over the years MSIL has developed a business model for dealers which helps them make money even if they sell vehicles in loss by cross selling other products such as insurance, spare parts, accessories, etc.

Margin levers in place

We expect MSIL's EBITDA margins to remain under pressure in FY21E due to lower capacity utilization, adverse product mix, adverse currency movement (JPY/INR). Management is aggressively working towards bringing down the fixed cost, model development cost and increase localization levels. We expect sharper recovery in margin from FY22, driven by operating leverage, commodity tailwinds and cost cutting measures.

Conference Call Highlights

- Management refrained from giving a volume guidance/trend given the unpredictable circumstances due to COVID-19. Domestic 4Ws have seen a swift recovery after the lockdown was lifted, aided by increasing preference for personal mobility along with pick-up in rural demand and reached 85% normalcy levels, however it is difficult to say, whether demand is pent up or sustainable going ahead.
- Rural demand is better than urban due to strong Rabi crop and good monsoon and lower cases of COVID-19 compared to urban area. Recovery has been slower in states like Maharashtra, Kerala and Gujarat.
- Healthy revival in demand post ease in lockdown helped PV industry to clear significant portion of the inventory. Current inventory levels for MSIL is close to 85,000 units, which is ~25-day while for PV Industry, it has gone down to 170k vehicle v 250k
- The company is facing supply constraints due to re-imposition of lockdowns in certain parts of the country. Current production is 4k/day and expected to improve in coming days as supply constraint eases. Expect demand will pick up in festive season.
- Gross margin impacted owing to inability to pass input cost and high average discount Rs.25k/vehicle for dispatch numbers. In 1Q, retail domestic volume was higher at 119k vs 67k for wholesale.
- Initial trends suggest, enquiries are moving towards smaller cars. The proportion of small cars in sales currently has increased to 65% from 55-56% last year. First time buyer and pre owned car demand is strong but replacement demand is going down.
- The company is making all efforts for reduction and variable and fixed cost along with increasing localisation.
- Company continues to support its dealers through inventory support and direct transfer. Maruti dealers are better placed than others in terms of profitability. Only 14 MSIL dealer shut down their operation in last financial year vs 300+ dealer for entire PV industry.
- Dealer financials remain healthy. For retail, financing the company is collaborating with many financial institutions and offering various schemes to customers to aid retails as and when demand picks up.

- The proportion of Diesel variant share went down to 20% in 1QFY21 vs 29% last year for Industry as a whole. Diesel variants accounted for Zero sales in 1QFY21 for MSIL.
- The company to launch refreshed version of S- cross in August 20.
- Export revenue stood at Rs.4.61bn

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	Dart Estimates	Variance (%)	Comments
Revenue	41,065	42,424	(3)	
EBIDTA	(8,634)	(2,620)	230	Low gross margin and higher other operating expenses
EBIDTA Margin (%)	(21.0)	(6.2)		
PAT	(2,494)	(1,927)		

Source: Company, DART

Exhibit 2: Change in Estimates

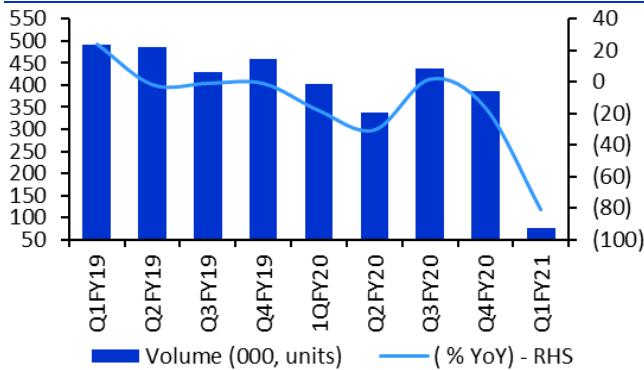
Particulars (Rs mn)	FY21E			FY22E		
	New	Previous	% Cng	New	Previous	% Cng
Volumes (in mn)	1.25	1.42	(12)	1.56	1.61	(3.5)
Net sales	6,24,061	7,06,907	(11.7)	7,82,799	8,14,957	(3.9)
EBITDA	48,793	65,405	(25.4)	92,195	96,770	(4.7)
EBITDA margin (%)	7.8	9.3	(143.4)bps	11.8	11.9	(9.7) bps
APAT	36,717	46,226	(20.6)	70,341	70,105	0.3
EPS	121.6	153.0	(20.6)	232.9	232.1	0.3

Source: Company, DART

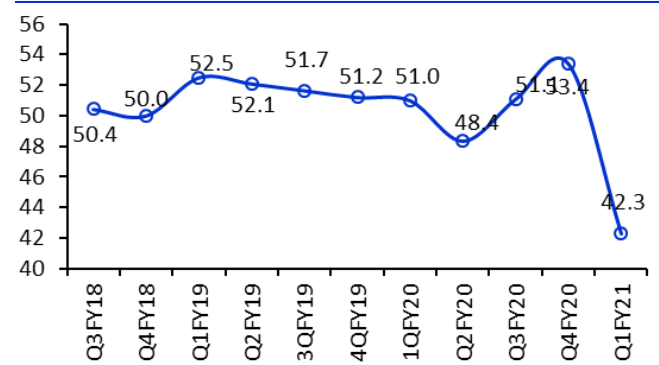
Exhibit 3: Assumption Table

(in units)	FY19	FY20	FY21E	FY22E	FY23E
Domestic sales	17,41,940	14,60,885	11,70,842	14,56,763	16,28,025
% YoY	5	(16)	(20)	24	12
Export sales	1,08,749	1,02,171	76,628	99,617	1,14,559
% YoY	(14)	(6)	(25)	30	15
Total sales	18,50,689	15,63,056	12,47,470	15,56,380	17,42,584
% YoY	4.0	(16)	(20.2)	25	12

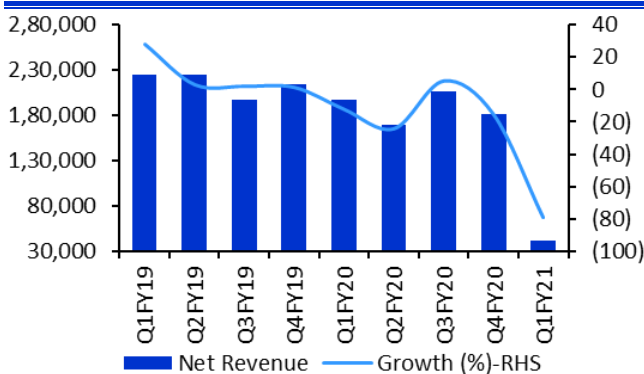
Source: DART, Company

Exhibit 4: Volume fell due to lockdown for Covi-19


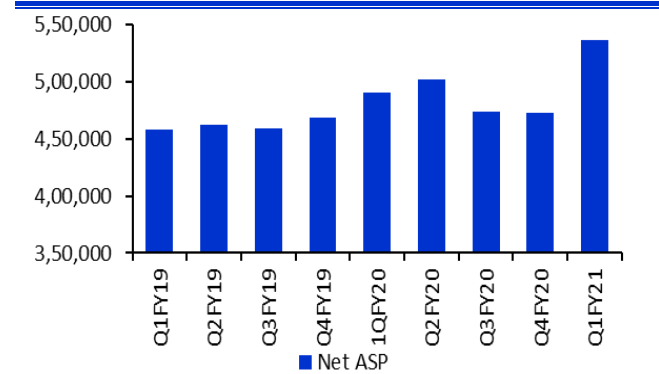
Source: Company, DART

Exhibit 5: PV market share drop due to supply disruption


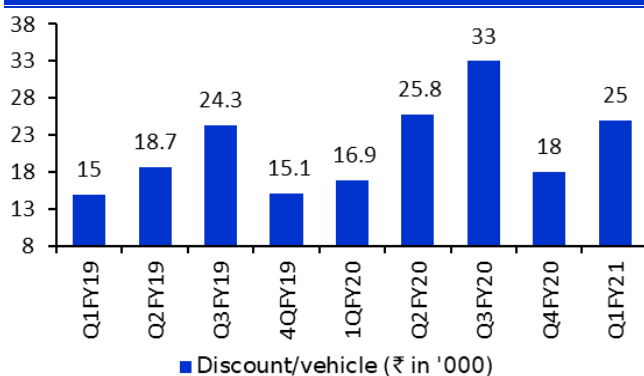
Source: SIAM, DART

Exhibit 6: Net revenue fallen 79% YoY


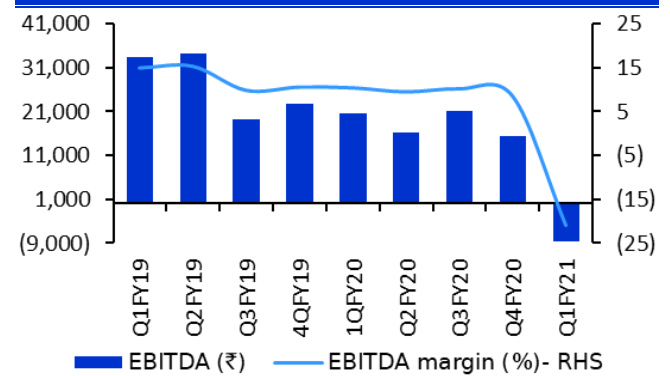
Source: Company, DART

Exhibit 7: Net ASP improved YoY/QoQ on better spare parts revenue


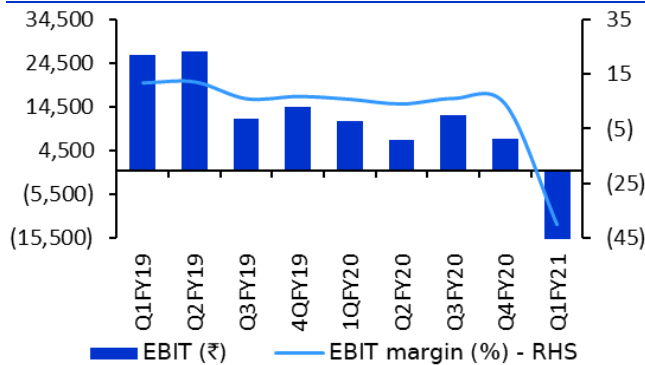
Source: Company, DART

Exhibit 8: Disc. remained high YoY/ QoQ


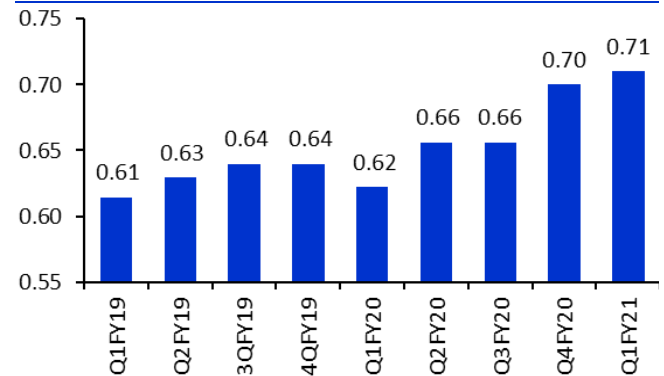
Source: Company, DART

Exhibit 9: EBITDA turned negative


Source: Company, DART

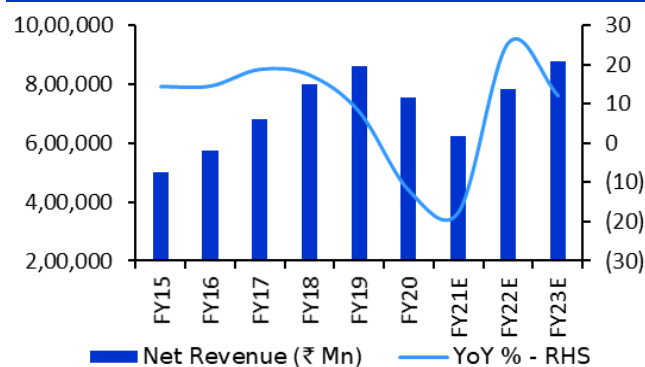
Exhibit 10: EBIT fallen due to low profitability


Source: Company, DART

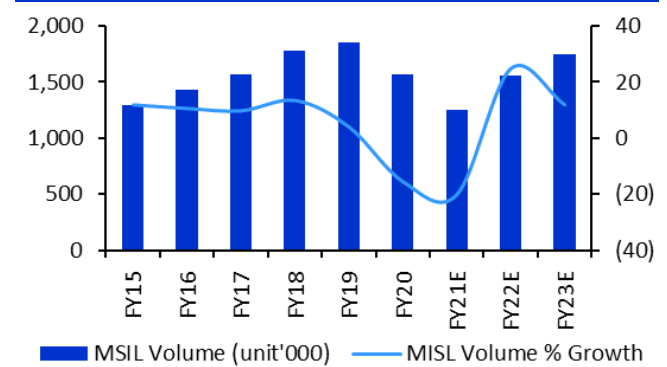
Exhibit 11: Forex movement remain unfavorable


Source: Company, DART

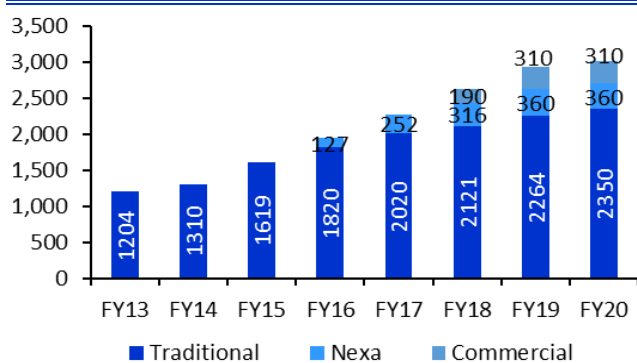
Annual Charts

Exhibit 12: Sharp recovery expected from FY22


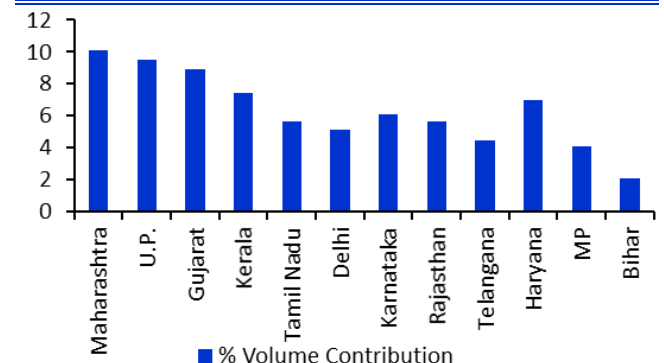
Source: Company, DART

Exhibit 13: MSIL Volume (18% CAGR over FY21-23E)


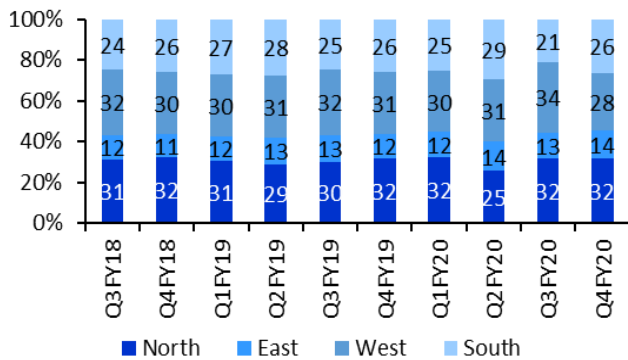
Source: Company, DART

Exhibit 14: MSIL Dealership Network


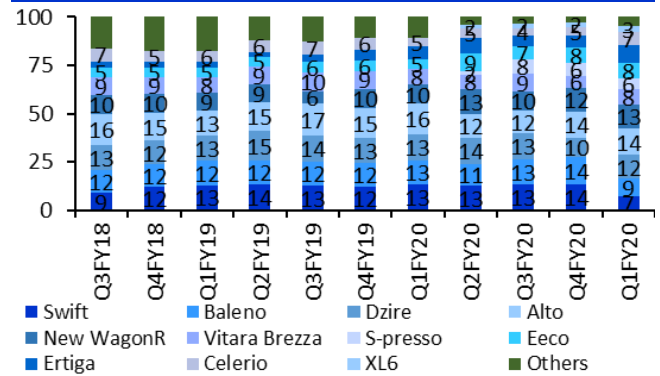
Source: Company, DART

Exhibit 15: UP, MP & Bihar will be next driving states


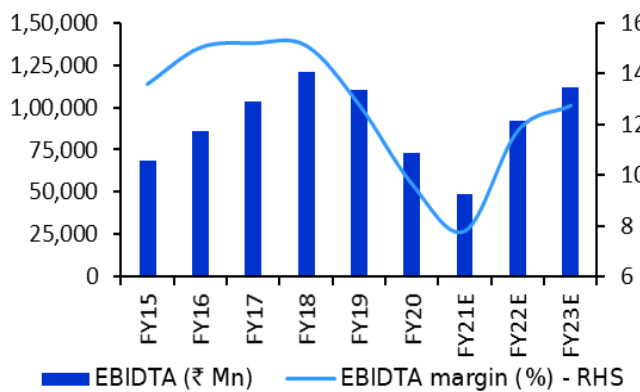
Source: SIAM, DART

Exhibit 16: Recovery in northern region to support growth


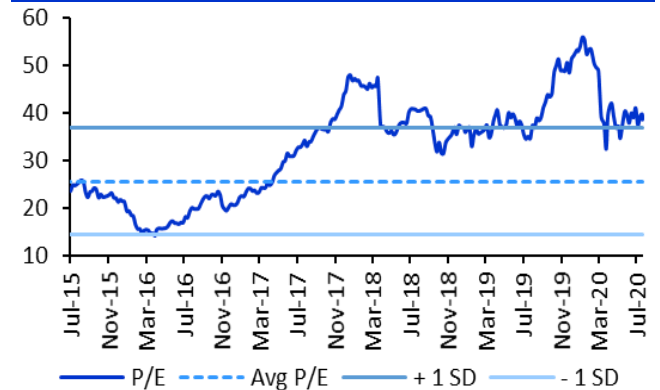
Source: SIAM, DART

Exhibit 17: New WagonR and Alto doing well


Source: SIAM, DART

Exhibit 18: Margin to improve on uptick in utilization


Source: Company, DART

Exhibit 19: 1 year forward P/E


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	7,56,106	6,24,061	7,82,799	8,76,769
Total Expense	6,83,080	5,75,267	6,90,604	7,64,889
COGS	5,31,566	4,43,708	5,46,396	6,04,973
Employees Cost	33,839	31,132	33,622	37,657
Other expenses	1,17,675	1,00,427	1,10,586	1,22,258
EBIDTA	73,026	48,793	92,195	1,11,880
Depreciation	35,257	34,640	35,410	39,910
EBIT	37,769	14,153	56,785	71,970
Interest	1,329	117	0	0
Other Income	34,208	35,249	37,634	38,908
Exc. / E.O. items	0	0	0	0
EBT	70,648	49,285	94,419	1,10,878
Tax	14,142	12,568	24,078	28,830
RPAT	56,506	36,717	70,341	82,048
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	56,506	36,717	70,341	82,048

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,510	1,510	1,510	1,510
Minority Interest	0	0	0	0
Reserves & Surplus	4,82,860	5,08,563	5,57,101	6,12,898
Net Worth	4,84,370	5,10,073	5,58,611	6,14,408
Total Debt	1,063	1,063	1,063	1,063
Net Deferred Tax Liability	7,444	7,944	8,444	8,944
Total Capital Employed	4,92,877	5,19,080	5,68,118	6,24,415

Applications of Funds

Net Block	1,52,129	1,50,863	1,60,453	1,65,543
CWIP	13,374	14,374	15,374	16,374
Investments	3,52,488	3,92,488	4,37,488	4,79,488
Current Assets, Loans & Advances	1,01,236	1,06,195	1,24,889	1,53,015
Inventories	32,149	25,646	32,170	38,434
Receivables	21,270	20,517	21,447	26,423
Cash and Bank Balances	4,869	7,598	13,664	26,671
Loans and Advances	5,246	12,481	15,656	17,535
Other Current Assets	37,702	39,952	41,952	43,952
Less: Current Liabilities & Provisions	1,26,350	1,44,840	1,70,085	1,90,005
Payables	74,914	88,260	1,07,848	1,21,544
Other Current Liabilities	51,436	56,580	62,238	68,461
sub total				
Net Current Assets	(25,114)	(38,645)	(45,197)	(36,990)
Total Assets	4,92,877	5,19,080	5,68,118	6,24,415

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	29.7	28.9	30.2	31.0
EBIDTA Margin	9.7	7.8	11.8	12.8
EBIT Margin	5.0	2.3	7.3	8.2
Tax rate	20.0	25.5	25.5	26.0
Net Profit Margin	7.5	5.9	9.0	9.4
(B) As Percentage of Net Sales (%)				
COGS	70.3	71.1	69.8	69.0
Employee	4.5	5.0	4.3	4.3
Other	15.6	16.1	14.1	13.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	28.4	121.0		
Inventory days	16	15	15	16
Debtors days	10	12	10	11
Average Cost of Debt	103.9	11.0	0.0	0.0
Payable days	36	52	50	51
Working Capital days	(12)	(23)	(21)	(15)
FA T/O	5.0	4.1	4.9	5.3
(D) Measures of Investment				
AEPS (Rs)	187.1	121.5	232.9	271.6
CEPS (Rs)	303.8	236.2	350.1	403.7
DPS (Rs)	60.0	36.5	72.2	86.9
Dividend Payout (%)	32.1	30.0	31.0	32.0
BVPS (Rs)	1603.4	1688.5	1849.2	2033.9
RoANW (%)	11.9	7.4	13.2	14.0
RoACE (%)	12.0	7.3	12.9	13.8
RoAIC (%)	7.9	2.8	10.7	12.5
(E) Valuation Ratios				
CMP (Rs)	6185	6185	6185	6185
P/E	33.1	50.9	26.6	22.8
Mcap (Rs Mn)	18,68,410	18,68,410	18,68,410	18,68,410
MCap/ Sales	2.5	3.0	2.4	2.1
EV	18,52,416	18,47,687	18,39,621	18,24,614
EV/Sales	2.00	2.35	1.81	1.55
EV/EBITDA	20.7	30.1	15.3	12.1
P/BV	3.9	3.7	3.3	3.0
Dividend Yield (%)	1.0	0.6	1.2	1.4
(F) Growth Rate (%)				
Revenue	(12.1)	(17.5)	25.4	12.0
EBITDA	(33.6)	(33.2)	88.9	21.4
EBIT	(52.7)	(62.5)	301.2	26.7
PBT	(32.5)	(30.2)	91.6	17.4
APAT	(24.7)	(35.0)	91.6	16.6
EPS	(24.7)	(35.0)	91.6	16.6

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	34,051	90,119	1,20,873	1,29,264
CFI	(4,639)	(76,374)	(93,000)	(90,000)
CFF	(31,000)	(12,800)	(25,340)	(30,511)
FCFF	3,450	55,745	74,873	83,264
Opening Cash	1,789	4,869	7,598	13,664
Closing Cash	4,869	7,598	13,664	26,671

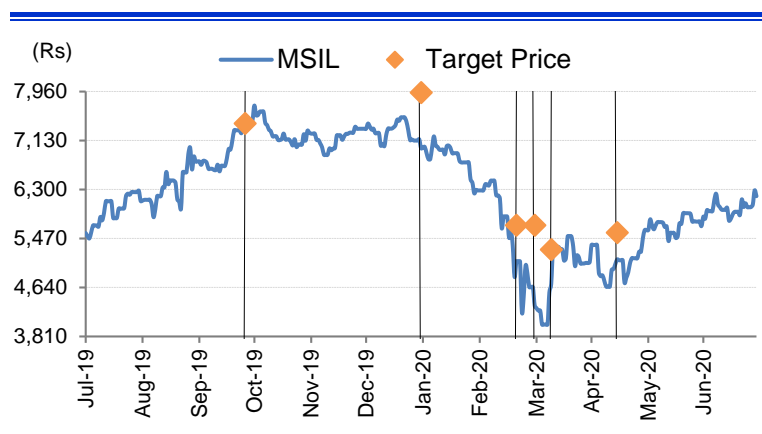
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Oct-19	Reduce	7,420	7,391
Jan-20	Buy	7,942	6,997
Mar-20	Accumulate	5,694	5,079
Mar-20	Accumulate	5,694	4,328
Apr-20	Accumulate	5,282	4,698
May-20	Buy	5,570	5,114

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
-------------	-------------------	-------------------------	-----------------

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
-------------------	------------------	-----------------------	-----------------

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. 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 Dolat Capital Market Private Limited. and/or its affiliated company(ies) 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 a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
