Maruti Suzuki India (MARUTI)

ICICI direct Research

CMP: ₹ 6,185	Target: ₹ 5,300 (-14%)	Target Period: 12 months	REDUCE

July 28, 2020

Result Update

Definite volume green shoots missing; valuation still rich

Maruti Suzuki (MSIL) reported a weak operational performance in Q1FY21. Total operating income for Q1FY21 was at ₹ 4,107 crore (down 79.2% YoY), tracking 80.1% drop in volumes to 76,599 units (domestic down 82.1%, exports down 66%) although ASPs surprised positively - up 7.6% QoQ to ₹ 4.80 lakh/unit. MSIL posted loss at EBITDA level of ₹ 863 crore on the back of spike in other expenses & 120 bps sequential gross margin deterioration. Consequent loss at PAT level was at ₹ 249 crore, limited by higher other income on account of fair value gains on investments.

Demand challenges in store; all eyes on FY22E

Retail sales data (using Vahan vehicle registrations as proxy) for July 2020 shows the domestic PV space continues its sedate ramp up post lifting of nationwide lockdown restrictions. On MTD basis, volumes for the segment are down ~40% over pre-Covid levels, largely in step with wider industry. MSIL has maintained its retail market share at ~52%, with its volume decline at similar levels. In the short to medium term, shift towards personal mobility in response to health concerns around public transport are a supportive factor for the PV space. This trend can benefit MSIL, especially given its leadership in passenger car sub-segment (market share at 62.6%) amid initial consumer trends revealing greater interest in entry level cars (i.e. down-trading). However, this incremental demand may be first captured by pre-owned car segment vs. new car sales amid pressure on consumer discretionary spend due to stressed incomes. Also, replacement demand domestically has slowed down as consumers tend to hold on to their existing vehicles due to low usage/hit on income, thereby impacting new car sales in near term. Building in negatives, we estimate 18% volume decline for MSIL in FY21E, followed by 20% growth in FY22E building in pent up demand following three years of soft to negative volume prints (FY19-21E).

Margin improvement on cards

Margin trajectory is seen improving, going forward. Courtesy its early switchover to BS-VI norms and demonstrated acceptance for those products, pricing environment is largely stable for the company. The management said discounting levels are lower QoQ thus far, and thus would support gross margins. Also, enhanced focus on cost controls (material and fixed costs) provides comfort. We build 11% margins for FY22E amid operating leverage benefits.

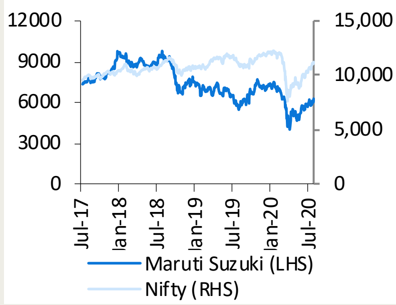
Valuation & Outlook

MSIL is a market leader in the domestic PV segment with balance sheet strength (surplus cash of ~ ₹ 35,000 crore) to navigate through the prevailing difficult demand scenario. However, the stock price appreciation in the recent past limits our margin of safety on the stock, especially in the absence of definitive green shoots on demand front, with MSIL now trading at ~30x P/E on FY22E numbers. Hence, we maintain **REDUCE**, valuing the stock at ₹ 5,300 i.e. 26x P/E on FY22E EPS of ₹ 203.4.

Particulars

Particular	Amount
Market Capitalization	₹ 186836.5 Crore
Total Debt (FY20P)	₹ 106.3 Crore
Cash & Inv (FY20P)	₹ 34780.5 Crore
EV	₹ 152162.3 Crore
52 week H/L (₹)	7755 / 4002
Equity capital	₹ 151 Crore
Face value	₹ 5

Price chart



Key Highlights

- Revenues fall 79.2% YoY in Q1FY21 tracking 80.1% YoY drop in volumes, although ASPs rise 7.6% QoQ
- Loss at EBITDA level was on account of spike in other expenses and gross margin deterioration
- PV segment recovery likely pushed back to FY22E. Margin outlook, however, appears better once pent up demand aids efforts on costs side
- Maintain REDUCE with revised target price of ₹ 5,300/share

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ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	79,762.7	86,020.3	75,610.6	63,172.7	75,853.8	0.2%
EBITDA	12,061.5	10,999.3	7,302.6	5,272.3	8,333.3	6.8%
EBITDA Margins (%)	15.1	12.8	9.7	8.3	11.0	
Net Profit	7,721.8	7,500.6	5,650.6	3,774.0	6,145.6	4.3%
EPS (₹)	255.6	248.3	187.1	124.9	203.4	
P/E	24.2	24.9	33.1	49.5	30.4	
RoNW (%)	18.5	16.3	11.7	7.4	11.1	
RoCE (%)	21.1	16.3	7.4	3.5	8.2	

Source: ICICI Direct Research, Company

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (Chg %)	Q4FY20	QoQ (Chg %)	Comments
Total Operating Income	4,107	3,718	19,720	-79.2	18,199	-77.4	Topline came in ahead of estimates tracking beat on ASPs primarily tracking better product
Raw Material Expenses	2,936	2,583	14,091	-79.2	12,791	-77.0	
Employee Expenses	730	814	859	-15.0	819	-10.9	Employee costs came in a tad lower than
Other expenses	1,303	701	2,722	-52.1	3,042	-57.2	Other expenses came in higher at 31.7% of total operating income vs.our estimate of
Operating Profit (EBITDA)	-863	-380	2,048	-142.2	1,546	-155.8	
EBITDA Margin (%)	-21.0	-10.2	10.4	-3141 bps	8.5	-2952 bps	EBITDA margins came in much lower tracking greater perils of negative operating leverage
Other Income	1,318	741	836	57.6	880	49.7	Other income came in substantially higher tracking one time gains on investment book
Depreciation	783	898	919	-14.7	823	-4.8	
Interest	17	27	55	-68.4	28	-38.9	
Total Tax	-96.3	-127.0	475.4	-120.3	283.8	-133.9	
PAT	-249	-438	1,436	-117.4	1,292	-119.3	PAT for the quarter was at negative ₹ 249 crore, tracking subdued operational performance partially supported by higher
EPS	-8.3	-14.5	47.5	-117.4	42.8	-119.3	
Key Metrics							
ASP (₹)	480,098	457,867	465,362	3.2	446,357	7.6	ASPs for the quarter came in ₹ 4.8 lakh/unit
Discounts (₹)	25,000	20,000	16,941	47.6	19,051	31.2	Discounts for the quarter on wholesale numbers were at upwards to ~₹ 25,000

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Total Operating Income	63,639	63,173	-0.7	74,781	75,854	1.4	Marginally tweak our estimates, we expect topline at MSIL to remain largely flat on CAGR basis over FY20-22E
EBITDA	6,090	5,272	-13.4	8,225	8,333	1.3	
EBITDA Margin (%)	9.6	8.3	-122 bps	11.0	11.0	-1 bps	Maintain FY22E estimates while we lower FY21E estimates tracking subdued performance in Q1FY21 (EBITDA margins at negative 21%)
PAT	4,180	3,774	-9.7	5,872	6,146	4.7	
EPS (₹)	138	125	-9.7	194	203	4.7	On the earnings front, we expect PAT to grow at a CAGR of 4.3% over FY20-22E

Source: ICICI Direct Research

Exhibit 3: Assumptions

				Current		Earlier		Comments
	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Total Volumes (lakh units)	17.8	18.6	15.6	12.9	15.4	13.8	15.8	Given slower than anticipated demand recovery amidst Covid-19 outbreak we now expect volumes at MSIL to de-grow 18% YoY in FY21E and thereafter grow 20% YoY in FY22E to 15.4 lakh units in FY22E.
Average ASPs (₹ lakh/unit)	4.39	4.46	4.59	4.62	4.66	4.39	4.48	Increased ASP estimates tracking beat on ASP's in Q1FY21. Product mix is expected to be a tad adverse in the near term i.e. FY21E
RMC/Unit (₹ lakh/unit)	3.09	3.24	3.45	3.51	3.50	3.30	3.33	
Discount (₹/unit)	15,895	18,334	23,688	18,750	15,000	17,500	15,000	

Source: ICICI Direct Research

Conference call highlights

Management outlook/guidance and demand

- **Present demand levels (based on inquiries, bookings, etc.) are at 85-90% of pre-Covid levels. However, it is difficult to isolate the impact of pent up demand**
- Demand outlook evolution in the future would depend upon economic revival, sentiment and Covid incidence
- Retail demand trends are varying across states. Some states recorded positive YoY growth in June while others like Kerala, Maharashtra and Tamil Nadu are witnessing tough offtake environment
- The company is exploring export opportunities amid lifting of lockdowns internationally and government impetus. Tie up with Toyota is also expected to provide an edge, especially in Africa
- **Present production run rate is at ~4,000 units per day** (including ~900 units per day from Suzuki Motor Gujarat on single shift basis). The company is hopeful of adding a second shift in Gujarat by September, which would add another 900 units daily
- Total 81-91% of showrooms are now open depending upon state-to-state lockdown restrictions
- Financing penetration is steady at ~78-80%. There are no discernible issues on the financing side at the moment
- Retail volumes for the quarter were at ~1.19 lakh units
- MSIL is seeing a good response to the recently launched car subscription service and expects the opportunity to gain traction from shift towards personal mobility post Covid

Industry trends and consumer insights

- **The management said that demand for pre-owned cars has increased in post Covid months**. However, supply (i.e. replacement intakes) is not keeping up pace, as users hold on to their vehicles during uncertain times
- For MSIL, replacement demand has dropped to ~15% of overall vs. ~25% last year
- First time buying demand is expected to pick up. MSIL has witnessed increase in contribution by this segment of ~5-5.5%
- Based on inquiry data, **downtrading trend is visible with ~65% skew towards entry level cars vs. ~55% last year**
- **Share of diesel in overall demand is at 20.6% now vs. 29.5% last year.** MSIL has exited diesel completely
- At the industry level, diesel contributes <5% of small car demand as the economic viability for more affordable pockets has deteriorated sharply post rise in diesel fuel prices over the years. Present running costs for both petrol and diesel cars are at ~₹ 4/km, with upfront cost difference at ₹ 1.5-2 lakh/unit. Mid-SUV and above segment, however, still has decent diesel contribution. MSIL continues to evaluate its options in this segment
- In terms of customer profile at MSIL, share of salaried customers has increased to 50% vs. 45% earlier
- At the industry level, top 10 cities contributed 36% of total demand in FY20 while cities ranked 11-20 contributed 12.1%, those ranked 21-40 contributed 14.2% and 41 & beyond ranked constituting 37.6% of sales

Costs and margins

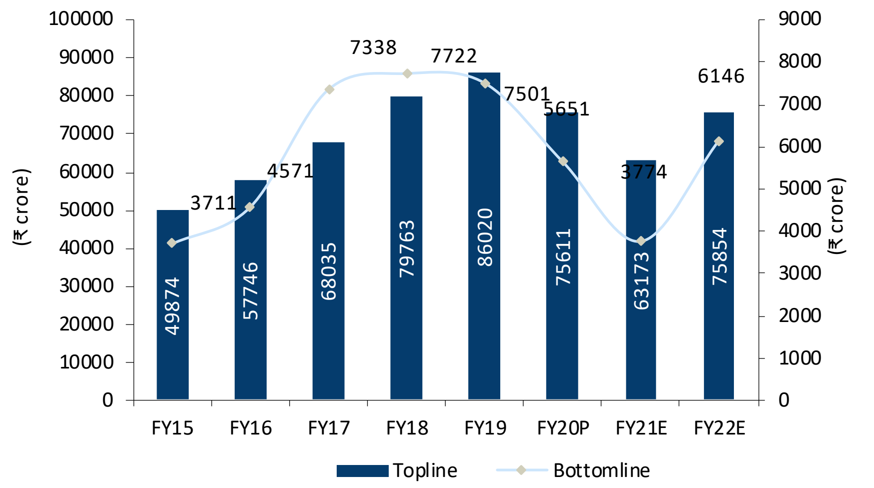
- Exports revenues for Q1FY21 were at ₹ 461 crore
- Sequential ASP improvement was largely on account of product mix
- The increase in raw material costs was exceptional in nature (commodity costs unchanged QoQ) and related to inventory adjustments
- **Q1FY21 discounts were at > ₹ 25,000/unit (based on wholesale volumes) and < ₹ 20,000/unit (based on retail volumes). However, on model-to-model basis, the trend was towards lower discounts.** July discount levels are lower than those in Q1FY21
- The company is working on lowering material costs (via increased localisation and lowering of product development costs) as well as fixed costs

Others

- The company extended support to dealer partners and other channel partners during the quarter
- **Present MSIL inventory levels is at ~80,000 units i.e. ~25 days of sales**

Financial story in charts

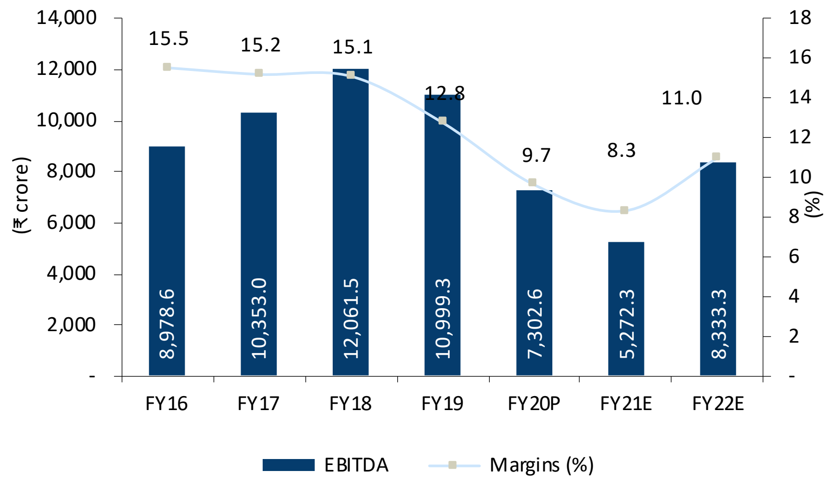
Exhibit 4: Topline and bottomline trend



Source: Company, ICICI Direct Research

We expect total operating income to remain flattish over FY20P-22E while profitability is seen improving at 4.3% CAGR during the time, largely on the back of margin uptick

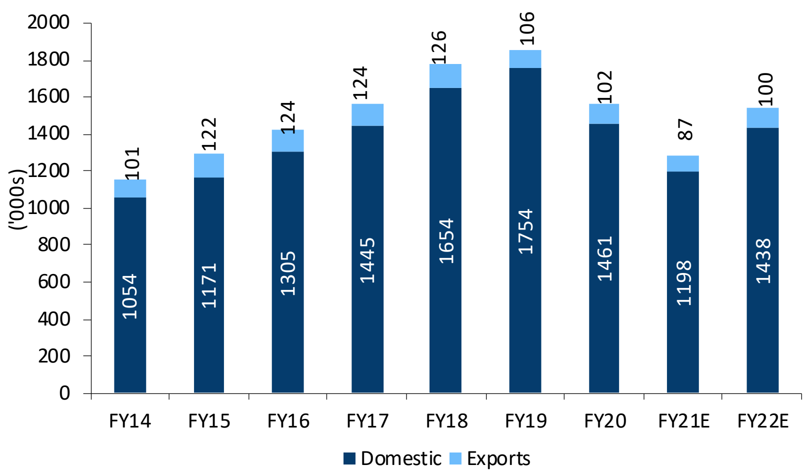
Exhibit 5: EBITDA trend and margin profile



Source: Company, ICICI Direct Research

EBITDA margins are seen reviving from lows of FY20P and FY21E during FY22E on the back of expected rise in volumes coupled with enhanced focus on cost controls

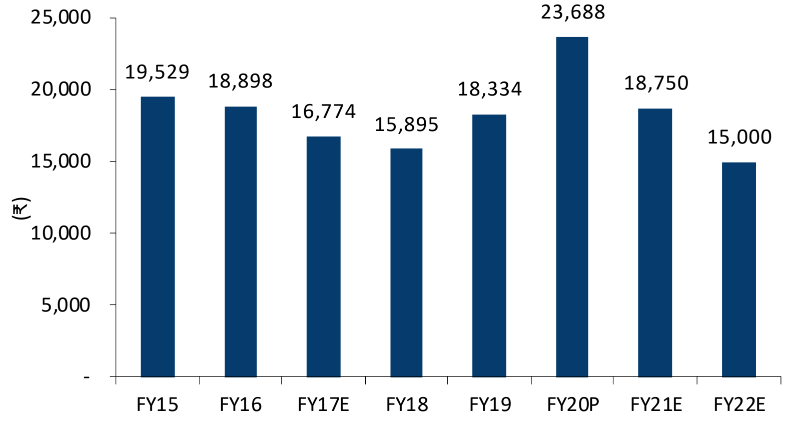
Exhibit 6: Domestic vs. exports volume trend



Source: Company, ICICI Direct Research

We expect domestic volumes to de-grow at a CAGR of 1.1% over FY20P-22E while exports volumes are expected to de-grow at 0.8% CAGR during this time. Blended volume performance is expected to be flattish over this period

Exhibit 7: Annual discounting trends and expectations



Source: Company, ICICI Direct Research

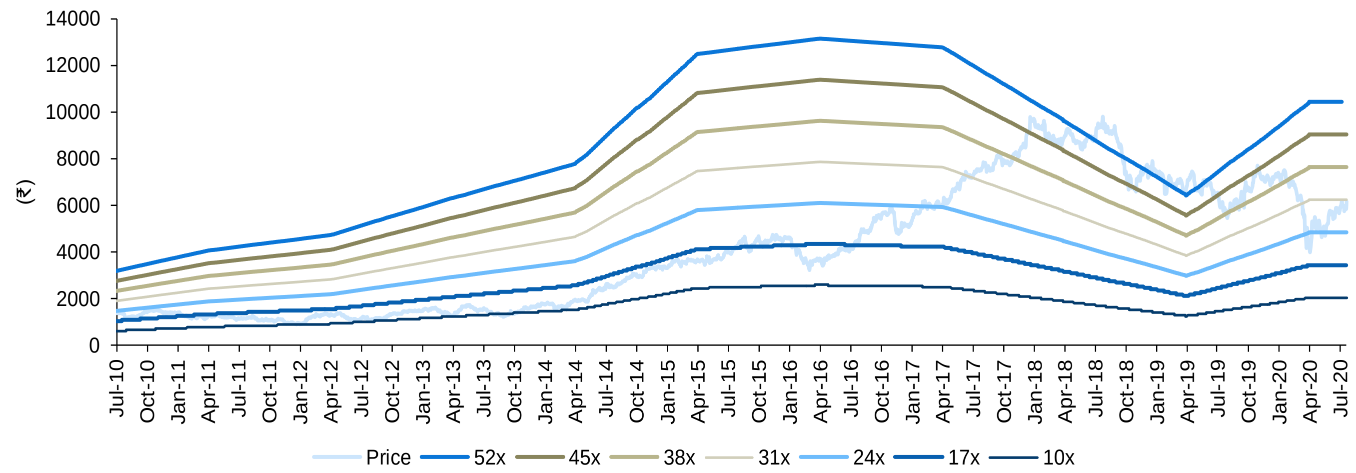
Discounting levels in Q1FY21 came in at > ₹ 25,000 per unit (based on wholesale volumes)

Exhibit 8: Valuation Summary

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY 18	79,763	17.2	256	5.2	24.2	12.7	18.5	21.1
FY 19	86,020	7.8	248	(2.9)	24.9	13.8	16.3	16.3
FY 20P	75,611	(12.1)	187	(24.7)	33.1	20.8	11.7	7.4
FY 21E	63,173	(16.4)	125	(33.2)	49.5	28.5	7.4	3.5
FY 22E	75,854	20.1	203	62.8	30.4	17.4	11.1	8.2

Source: Bloomberg, ICICI Direct Research

Exhibit 9: MSIL currently trades at ~30x its FY22E EPS



Source: Bloomberg, ICICI Direct Research

Exhibit 10: Shareholding pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	56.2	56.2	56.2	56.3	56.3
FII	25.3	23.4	23.2	21.6	21.5
DII	11.3	15.0	15.6	16.7	17.1
Others	7.2	5.4	5.0	5.4	5.2

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement ₹ crore

(Year-end March)	FY19	FY20P	FY21E	FY22E
Total operating Income	**86,020**	**75,611**	**63,173**	**75,854**
Growth (%)	7.8	-12.1	-16.4	20.1
Raw Material Expenses	60,254	53,995	45,126	53,820
Employee Expenses	3,255	3,384	3,094	3,300
Other expenses	11,512	10,929	9,680	10,401
Total Operating Expenditure	75,021	68,308	57,900	67,521
EBITDA	**10999.3**	**7302.6**	**5272.3**	**8333.3**
Growth (%)	-9	-34	-28	58
EBITDA margins (%)	12.8	9.7	8.3	11.0
Depreciation	3,019	3,526	3,411	3,603
Interest	76	133	120	108
Other Income	2,561	3,421	3,104	3,307
PBT	10,466	7,065	4,846	7,930
Total Tax	2,965	1,414	1,072	1,784
Tax Rate (%)	28.3	20.0	22.1	22.5
PAT	**7500.6**	**5650.6**	**3774.0**	**6145.6**
Growth (%)	-3.0	-24.7	-33.2	62.8
EPS (₹)	**248.3**	**187.1**	**124.9**	**203.4**

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	**7,501**	**5,651**	**3,774**	**6,146**
Add: Depreciation	3,019	3,526	3,411	3,603
(Inc)/dec in Current Assets	-504	-50	972	-1,248
Inc/(dec) in CL and Provisions	-1,331	-2,812	-2,063	1,832
Others	76	133	120	108
CF from operating activities	**8760.5**	**6446.7**	**6214.7**	**10440.6**
(Inc)/dec in Investments	-975	297	-2,000	-5,000
(Inc)/dec in Fixed Assets	-4,542	-3,637	-2,500	-3,000
Others	17	266	-310	-310
CF from investing activities	**-5499.2**	**-3073.3**	**-4810.0**	**-8310.0**
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	39	-43	-10	-20
Dividend paid & dividend tax	-2,900	-2,175	-1,208	-1,964
Others	-301	-1,304	-120	-108
CF from financing activities	**-3162.5**	**-3522.2**	**-1337.9**	**-2091.2**
Net Cash flow	99	-149	67	39
Opening Cash	71	170	21	88
Closing Cash	**169.9**	**21.1**	**88.0**	**127.3**

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet ₹ crore

(Year-end March)	FY19	FY20P	FY21E	FY22E
Liabilities				
Equity Capital	151	151	151	151
Reserve and Surplus	45,981	48,286	50,852	55,034
Total Shareholders funds	**46132.4**	**48437.0**	**51002.7**	**55184.7**
Total Debt	150	106	96	76
Deferred Tax Liability	564	598	598	598
Others Liabilties	2,076	2,222	2,262	2,302
Total Liabilities	**48922.0**	**51363.6**	**53959.3**	**58161.3**
Assets				
Gross Block	26,492	30,391	33,228	36,478
Less: Acc Depreciation	11,084	14,610	18,021	21,624
Net Block	**15407.8**	**15781.2**	**15207.3**	**14854.2**
Capital WIP	1,600	1,337	1,000	750
Total Fixed Assets	17,008	17,119	16,207	15,604
Investments	**36515.0**	**36467.6**	**38717.6**	**43967.6**
Inventory	3,326	3,215	2,596	3,117
Debtors	2,310	2,127	2,077	2,494
Loans and Advances	16	17	14	17
Other Current Assets	1,485	1,829	1,528	1,835
Cash	**169.9**	**21.1**	**88.0**	**127.3**
Total Current Assets	7,307	7,209	6,303	7,590
Creditors	9,633	7,494	6,058	7,274
Provisions	624	680	549	660
Other current Liabilities	3,743	3,015	2,519	3,024
Total Current Liabilities	14,001	11,189	9,126	10,958
Net Current Assets	**-6693.6**	**-3979.9**	**-2822.8**	**-3367.8**
Other Assets	2,093	1,757	1,857	1,957
Application of Funds	**48922.0**	**51363.6**	**53959.3**	**58161.3**

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	248.3	187.1	124.9	203.4
Cash EPS	348.2	303.8	237.9	322.7
BV	1,527.2	1,603.4	1,688.4	1,826.8
DPS	80.0	60.0	40.0	65.0
Cash Per Share	1,166.1	1,151.4	1,219.8	1,386.6
Operating Ratios				
EBITDA Margin (%)	12.8	9.7	8.3	11.0
PBIT / Net sales (%)	9.3	5.0	2.9	6.2
PAT Margin (%)	8.7	7.5	6.0	8.1
Inventory days	14.1	15.5	15.0	15.0
Debtor days	9.8	10.3	12.0	12.0
Creditor days	40.9	36.2	35.0	35.0
Return Ratios (%)				
RoE	16.3	11.7	7.4	11.1
RoCE	16.3	7.4	3.5	8.2
RoIC	58.1	22.9	11.1	28.5
Valuation Ratios (x)				
P/E	24.9	33.1	49.5	30.4
EV / EBITDA	13.8	20.8	28.5	17.4
EV / Net Sales	1.8	2.0	2.4	1.9
Market Cap / Sales	2.2	2.5	3.0	2.5
Price to Book Value	4.1	3.9	3.7	3.4
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.7	0.9	0.9	0.9
Quick Ratio	**0.4**	**0.5**	**0.5**	**0.5**

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Apollo Tyre (APOTYR)	110	100	Hold	6,292	8.3	2.4	7.6	13.2	46.3	14.4	6.3	6.0	4.7	4.8	3.5	6.1	4.8	1.2	4.3
Ashok Leyland (ASHLEY)	51	58	Hold	14,928	0.8	0.1	2.1	62.5	762.9	24.8	14.4	20.6	10.4	5.6	2.2	8.6	4.7	0.3	8.0
Bajaj Auto (BAAUTO)	3,100	3,210	Hold	89,705	176.2	136.9	173.5	17.6	22.6	17.9	14.2	17.2	12.7	23.8	23.3	26.6	25.6	17.9	20.2
Bharat Forge (BHAFOR)	387	300	Hold	18,018	7.5	0.0	10.0	51.6	NM	38.7	18.5	34.4	17.1	7.7	2.2	8.2	7.8	0.0	8.6
Eicher Motors (EICMOT)	21,380	18,070	Hold	58,282	670.4	495.4	690.9	31.9	43.2	30.9	24.9	31.3	22.2	22.5	15.9	19.1	18.3	12.2	14.9
Escorts (ESCORT)	1,140	1,300	Buy	13,974	39.6	46.1	54.5	28.8	24.7	20.9	19.3	16.3	13.7	18.9	15.0	15.2	14.2	11.2	11.8
Exide Industries (EXIIND)	155	170	Hold	13,175	9.7	8.1	9.7	16.0	19.1	16.1	9.5	10.1	8.5	16.7	13.8	15.2	13.4	10.3	11.4
Hero Moto (HERHON)	2,770	2,500	Hold	55,317	181.9	109.8	147.6	15.2	25.2	18.8	12.5	16.5	12.0	26.5	18.7	23.2	22.7	14.5	17.9
M&M (MAHMAH)	605	600	Buy	75,214	10.7	28.4	39.7	56.5	21.3	15.2	12.4	13.2	9.7	13.0	11.1	14.2	6.4	9.5	12.0
Maruti Suzuki (MARUTI)	**6,185**	**5,300**	**Reduce**	**1,86,836**	**187.1**	**124.9**	**203.4**	**33.1**	**49.5**	**30.4**	**20.8**	**28.5**	**17.4**	**7.4**	**3.5**	**8.2**	**11.7**	**7.4**	**11.1**
Minda Industries (MININD)	280	320	Buy	7,342	5.9	2.8	9.6	47.4	99.1	29.1	13.2	14.9	10.2	10.6	6.6	12.7	10.3	5.1	13.6
Tata Motors (TATMOT)	105	90	Hold	38,378	-32.8	-27.4	2.4	NM	NM	43.6	4.6	7.0	3.9	3.0	-0.1	7.2	-4.3	-12.3	8.5

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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