Sharekhan
by BNP PARIBAS

Maruti Suzuki India

Approaching growth highway

Sector: Automobiles
Company Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 7,230**	
Price Target: **Rs. 8,000**	↑

↑ Upgrade ↔ No change ↓ Downgrade

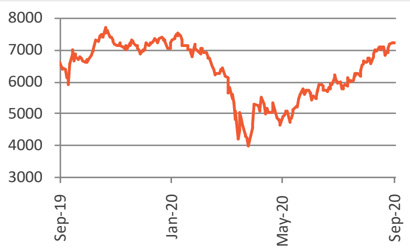
Company details

Market cap:	Rs. 218,430 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	56.3
FII	21.5
DII	17.1
Others	5.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.8	33.2	17.7	9.6
Relative to Sensex	7.6	17.4	8.9	5.4

Sharekhan Research, Bloomberg

As per our channel checks, Maruti Suzuki India Ltd (Maruti) is witnessing a recovery in demand with retail sales drop narrowing to about 5% y-o-y in August 2020 as compared to about 20% in July 2020. Dealers are witnessing improved footfalls as well as bookings. Government unlock measures and increased preference for personal transport is leading to improved volumes. With completion of inauspicious Shraaddh period in mid-September, dealers expect a further pick up in sales given improving consumer sentiments and upcoming festive season. The Dealer body Federation of Automobile Dealers Associations (FADA) has stated that while rural markets have been showing signs of revival till now, urban centres have shown initial signs of pullback for the first time in August 2020. Also, wholesales have already reported double digit growth on y-o-y basis in August due to channel inventory filling. With inventory still at 80-85% of normal and upcoming festive season, we expect wholesales to continue to outpace retails. Maruti management has indicated that festive season outlook is good. We expect Maruti to report positive growth on a y-o-y basis starting with the festive season. FY22 is likely to witness strong double-digit growth driven by normalization of economic activity and pent up demand. Also, with demand picking up, discounting per vehicle has reduced by Rs. 4,000-5,000. Operating leverage coupled with reduction in discounts would boost margins going ahead. Government proposal to cap royalty payments to foreign parent could have positive impact given Maruti pays the highest royalty of 5.1% amongst the automotive companies. With strong leadership position (50% market share) and unparalleled distribution strength, Maruti would be prime beneficiary of demand revival in PV space. Hence, we retain Buy rating on the stock.

Positive outlook for festive season; expect strong double-digit growth from FY22: Maruti retail sales decline has narrowed down to 5% driven by improving economic activities due to unlock measures and increased preference for personal mobility. With improving consumer sentiments and the upcoming festive season, dealers expect sales to improve further. We expect Maruti to resume its positive growth trend from the festive season.FY22 is likely to witness a strong double-digit growth with normalization of economic activity and pent up demand (PV industry has been in downcycle for past seven quarters).

Our Call

Valuations: Rollover to FY23 earnings; Maintain Buy with revised PT of Rs 8,000: We expect positive growth on yoy basis for Maruti in the festive season. FY 22 is likely to witness double-digit growth as economic activity normalizes. Margins are expected to improve driven by operating leverage and reduction in discounts. We have introduced FY23 earnings in this note. At CMP, stock is trading at 24.5x FY23 earnings which is closer to its long-term average historical multiples of 24-25x. However, given the early recovery cycle scenario, valuation multiples can expand above historical averages. We increase our target price to Rs 8,000 as we rollover our target multiple on FY23 earnings. We retain Buy rating on the stock.

Key Risks

Prolonged COVID-19 infection can weaken consumer sentiments and delay normalcy in demand. Adverse Rupee-Yen movement can affect profitability.

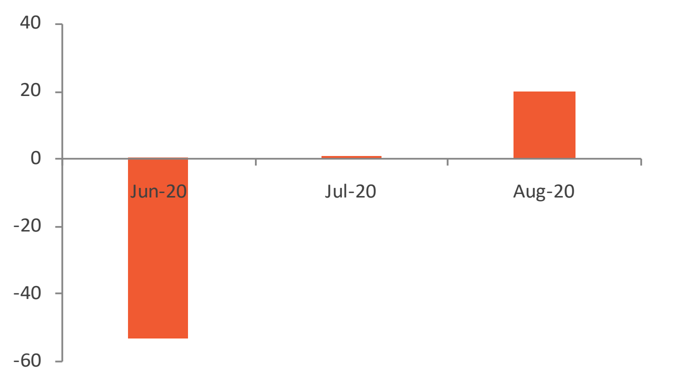
Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net sales	86,020.3	75,610.6	69,333.7	83,998.3	96,667.2
Growth (%)	7.8	-12.1	-8.3	21.2	15.1
EBITDA	10,999	7,303	6,572	9,999	12,031
EBIDTA %	12.8	9.7	9.5	11.9	12.4
PAT	7,500.6	5,650.6	5,736.7	7,826.8	8,911.0
Growth (%)	-2.9	-24.7	1.5	36.4	13.9
FD EPS (INR)	248.3	187.1	189.9	259.1	295.0
P/E (x)	29.1	38.7	38.1	27.9	24.5
P/B (x)	4.7	4.5	4.2	3.8	3.4
RoE (%)	16.3	11.7	9.7	13.6	14.0
RoCE (%)	20.7	13.6	11.5	15.9	16.8
EV/Sales(x)	2.5	2.9	3.1	2.6	2.2
EV/EBITDA (x)	19.4	29.8	33.0	21.7	17.9

Source: Company; Sharekhan estimates

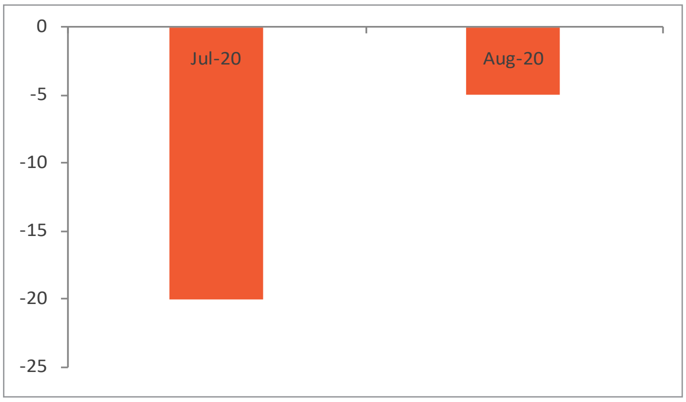
Demand improving; positive outlook for the festive season: Our channel checks suggestthat , Maruti Suzuki is witnessing a recovery in demand. Retail sales decline has narrowed sharply to about 5% as compared to about a drop of witnessed in July 2020. Channel checks have further indicated improving customer footfalls and bookings. Dealers expect demand to pick up further once the inauspicious Shraaddh period ends in first half of September 2020 and festive season kicks in from September second half. Maruti wholesale volumes have been better than retails (wholesales grew 17% y-o-y in August 2020). With channel inventory lower than normal (about 80-85% currently), we expect wholesales volumes to be better than retail sales as company fills channel inventory ahead of the festive season. The automotive dealer body Federation of Automotive Dealers Association (FADA) has indicated that while rural markets have been showing signs of revival till now, urban centres have showninitial signs of pullback for the first time in August 2020. Opening up of the economy under unlock measures and increasing preference for personal transportation is driving up volumes for Maruti. Maruti has stated that the festive season demand is expected to be good. We expect positive growth for MSIL on ay-o-y basis in the festive period.

Wholesale volume growth y-o-y (%)



Source: Company, Sharekhan Research

Retail sales growth y-o-y (%)

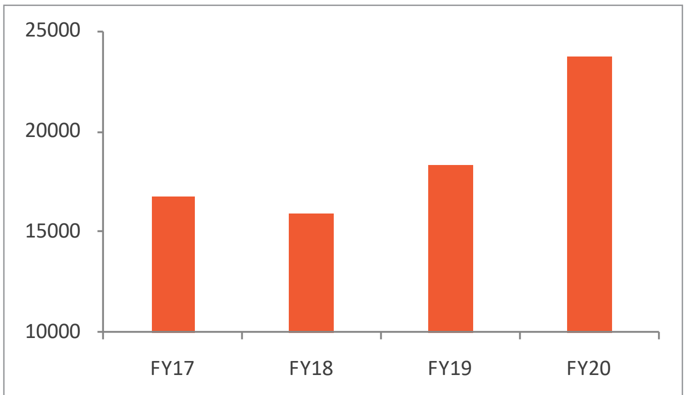


Source: FADA; Sharekhan Research

PV volumes to recover strongly in FY22: While FY21 would be impacted on account of COVID-19, we expect strong recovery in the PV demand from FY22. Further unlock measures from the Government and expected normalization of economic activity is expected to boost PV demand in FY2022. Furthermore, the PV industry demand has been in the downtrend since Q2FY2019 (seven to eight quarters of downcycle). Pent up demand coupled with improving economic growth would lead toanupsurge in PV volumes from FY22. We expect strong double-digit growth for the PV industry from FY22.

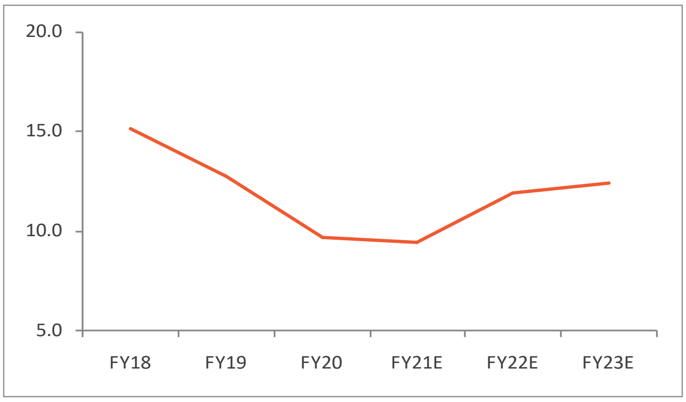
Operating leverage, reduction in discounting to boost margins; Govt proposal to reduce royalty to add to margins: Maruti volumes are expected to grow at healthy 7% CAGR over FY20 to FY23 period. Expected normalisation of economic activity and pent up demand is likely to boost volumes. With strong double-digit growth, Maruti is likely to accrue benefits of operating leverage. Also, our channel checks have indicated that discounting levels have come down by Rs. 4,000-5,000 per vehicle given the pick up in demand. With double digit volumes growth in FY22 and improving industry volumes, we expect discounting levels to come off which would boost margins. We have factored 270 bps margin improvement over the next three years.Recently, the Government has proposed automotive companies to reduce royalty payments to foreign parents. Maruti is amongst the highest royalty paying companies in the automotive industry with royalty forming about 5.1% of sales in FY20. Any cap or reduction in royalty payments would augment margins.

Discounting/vehicle trend



Source: Company, Sharekhan Research

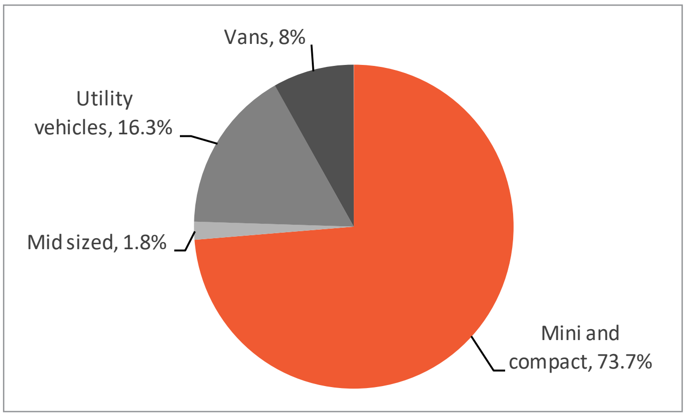
Operating margin trend



Source: Company, Sharekhan Research

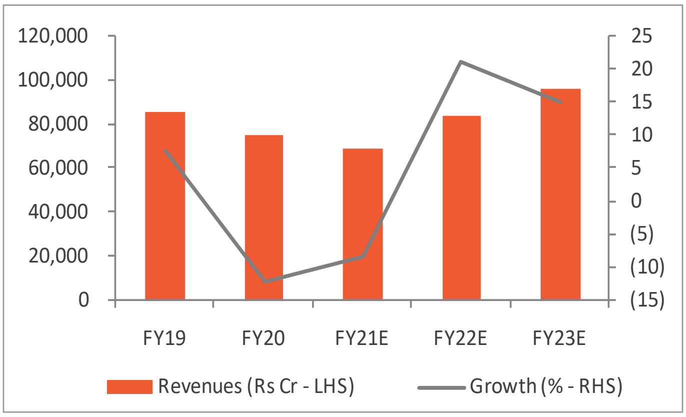
Financials in charts

Segmental mix



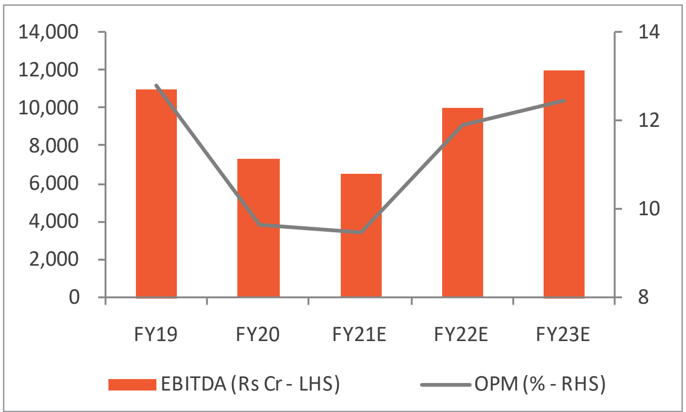
Source: Company, Sharekhan Research

Revenue trend



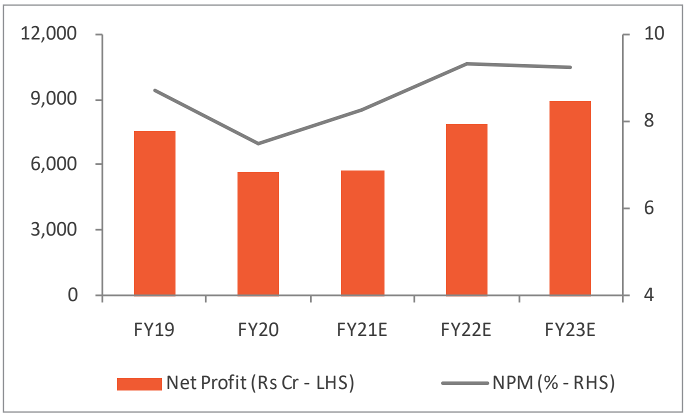
Source: Company, Sharekhan Research

EBIDTA-OPM trend



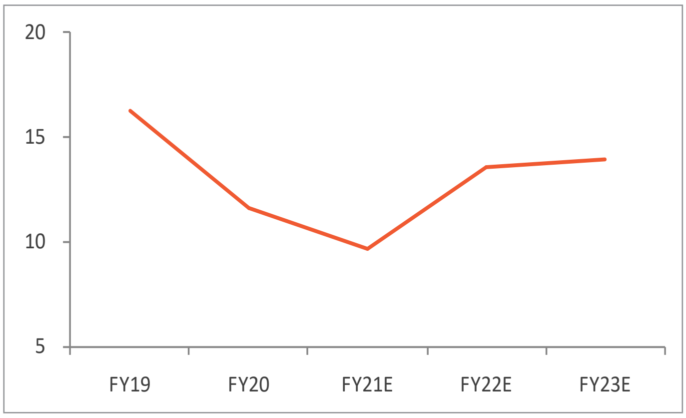
Source: Company, Sharekhan Research

Net Profit trend



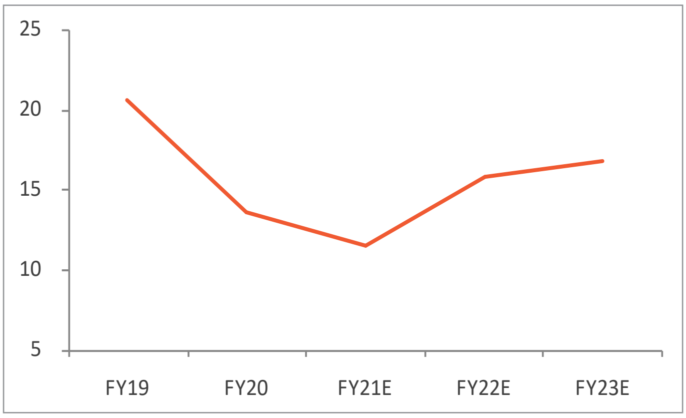
Source: Company, Sharekhan Research

ROE trend (%)



Source: Company, Sharekhan Research

ROCE trend (%)



Source: Company, Sharekhan Research

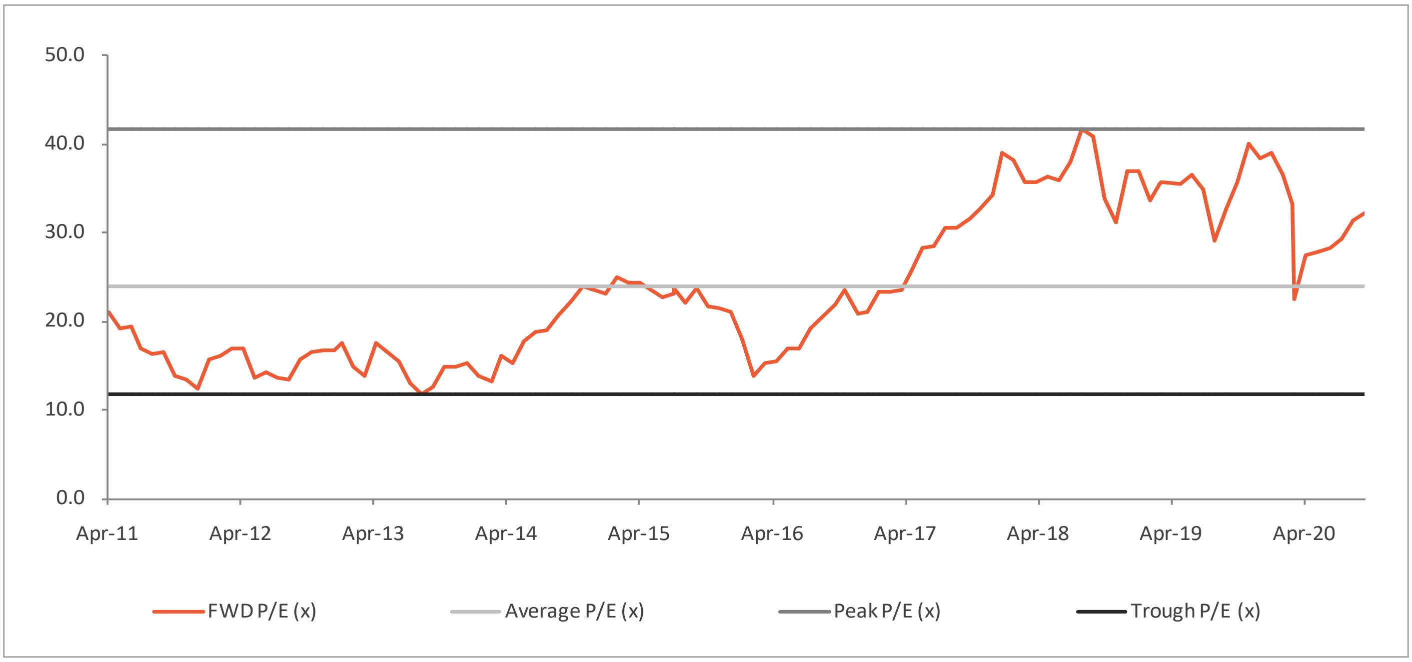
Outlook

Positive outlook for festive season; expect strong double-digit growth from FY22: Maruti retail sales decline has narrowed to about 5% in August 2020 compared to 20% drop witnessed in July 2020. Wholesales have already reached positive territory with 17% y-o-y growth in August 2020 driven by channel inventory filling. With improving consumer sentiments, preference for personal transportation and improvement in economic activities, we expect retail sales to improve further. While demand from rural areas is picking up, urban areas are showing signs of demand pullback as per dealer association FADA. With current inventory levels at 80-85% of normal we expect wholesales volumes to continue to outpace retail sales. We expect positive growth on y-o-y basis in the festive period for Maruti.FY22 is likely to witness strong double-digit growth with normalization of economic activity and pent up demand (PV industry has been in downcycle for past seven quarters).

Valuation

Rollover to FY23 earnings; Maintain Buy with revised PT of Rs 8,000: We expect positive growth on yoy basis for Maruti in the festive season. FY 22 is likely to witness double-digit growth as economic activity normalizes. Margins are expected to improve driven by operating leverage and reduction in discounts. We have introduced FY23 earnings in this note. At CMP, stock is trading at 24.5x FY23 earnings which is closer to its long-term average historical multiples of 24-25x. However, given the early recovery cycle scenario, valuation multiples can expand above historical averages. We increase our target price to Rs 8,000 as we rollover our target multiple on FY23 earnings. We retain Buy rating on the stock.

One year forward P/E (x) band



Source: Sharekhan Research

About company

Maruti is the market leader in the PV segment, commanding a market share of about 50%. In the PV segment, Maruti's market share in passenger cars stands at 62%, utility vehicles at 25% and vans at 90%. Petrol vehicles contribute about 75% to sales, whilst the contribution of diesel vehicles stands at 25%. Maruti has been steadily ramping up its presence in the hinterlands, with rural sales currently contributing about 38% to overall sales.

Investment theme

Maruti is the market leader in the PV segment with a 50% market share. Maruti is witnessing recovery in demand with retail sales drop narrowing to about 5% y-o-y in August 2020 as compared to about 20% in July 2020. Dealers are witnessing improved footfalls as well as bookings. Government unlock measures and increased preference for personal transport is leading to improved volumes. Dealer body FADA has stated that while rural markets have been showing signs of revival till now, urban centres have shown initial signs of pullback for the first time in August 2020. Maruti management has indicated that festive season outlook is good. We expect Maruti to report positive growth on y-o-y basis starting with the festive season. FY22 is likely to witness strong double-digit growth driven by normalization of economic activity and pent up demand. Operating leverage coupled with reduction in discounts would boost margins going ahead. We retain Buy rating on the stock.

Key Risks

Prolonged COVID-19 infection can weaken consumer sentiments and delay normalcy in demand. Adverse INR/JPY movement can impact profitability.

Additional Data

Key management personnel

R C Bhargava	Chairman
Kenichi Ayukawa	Managing Director & CEO
Ajay Seth	Chief Financial Officer
Shashank Srivastava	Executive director, marketing and sales

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Suzuki Motor Corp	56.3
2	Life Insurance Corp of India	6.8
3	SBI Funds Management Pvt Limited	1.7
4	JP Morgan Chase & Co	1.6
5	Vangaurd Group Inc	1.4
6	Blackrock Inc	1.4
7	Capital Group companies	1.2
8	Axis Management Co India	1.2
9	GIC Pte Ltd	1.1
10	Nomura Holdings Inc	0.9

Source: Bloomberg

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