

Margin headwinds lie ahead, valuation concerns prevail

Maruti Suzuki (MSIL) posted steady Q2FY21 results. Total operating income was at ₹ 18,475 crore, up 10.4% YoY (volumes up 16.2% YoY to 3.9 lakh units with domestic volumes up 18.6%, exports down 13%). ASPs surprised negatively, coming in at ₹ 4.5 lakh/unit, down 5.6% YoY – pointing to some element of down-trading. EBITDA margins at 10.3% were up 80 bps YoY. Savings were realised on raw material costs front but the same was negated, to an extent, through higher other expenses. Consequent PAT was at ₹ 1,372 crore, up 1% YoY. PAT was supported by lower depreciation charge and lower effective tax rate (~22%).

Creditable volume show in post Covid months improves outlook

Contrary to our earlier expectations, the PV space has rebounded faster than 2-W segment after nationwide unlock programme (although within 2-W, rural-heavy motorcycles sub-segment continue to lead scooters – largely an urban product). The segment, as a whole, grew 10% YoY at retail level in September following months of consecutive rapid QoQ improvement. Enhanced preference for personal mobility in the wake of the pandemic (concerns around public transport), efforts by OEMs centred around digital marketing, increased financing options (tie ups with banks, NBFCs for multiple offerings on beneficial terms) have helped a quicker than expected turnaround for PVs. On its part, MSIL has led the charge, with robust retail offtake in May-September helping maintain retail market share at ~50%. PV festive demand is also healthy, as per reports. Recent growth momentum is cause for encouragement but volume sustainability post-November would need to be monitored amid an element of channel restocking carried out in September. We build 3.9% volume CAGR for MSIL over FY20-23E.

Greater challenges appear in UV category

For MSIL, share of UVs in total domestic volumes was at 18.2% in H1FY21 vs. 16.6% in FY20. Despite improvement in category mix, however, the company's UV market share has reduced from 24.9% as of FY20 to 22.9% as of H1FY21. Its chief offerings in the category i.e. Brezza, Ertiga, XL6 are witnessing intense competition from the likes of Venue, Nexon, Seltos, Creta and Hector (Exhibit 7). MSIL's commentary suggests that demand for PC category is higher vis-à-vis UV (i.e. downtrading) post Covid. This could lead to a double whammy for MSIL's ASP and gross margin profile.

Valuation & Outlook

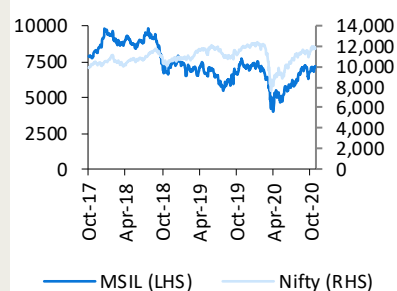
We introduce FY23E numbers and build sales, PAT CAGR of 2.6% & 7.2%, respectively, in FY20-23E. Margins uptick is seen being sedate, with our estimates building in ~11.2% by FY23E on the back of better operating leverage and focus on costs. Our previous concerns over volume visibility have been allayed, to an extent but the stock remains richly valued, in our view. We value MSIL at ₹ 6,335 i.e. 30x P/E on average of FY22E, FY23E EPS.



Particulars

Particular	₹ crore
Market Capitalization	2,14,930
Total Debt (FY 20)	106
Cash & Investment (FY 20)	35,830
EV	1,79,206
52 week H/L (₹)	7755 / 4002
Equity capital	₹ 151 Crore
Face value	₹ 5

Price chart



Key Highlights

- Revenues rose 10.4% YoY in Q2FY21 tracking 16.2% YoY rise in volumes, although ASPs down 5.6% YoY
- Margins rose 80 bps YoY to 10.3% amid lower raw material costs
- Strength of PV rebound post Covid has been impressive. For MSIL, market share loss in UV segment is a concern, with possible impact on ASPs and margins
- Maintain REDUCE with revised target price of ₹ 6,335/share

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Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	86,020.3	75,610.6	62,392.5	72,577.4	81,591.7	2.6%
EBITDA	10,999.3	7,302.6	5,051.1	7,621.9	9,128.3	7.7%
EBITDA Margins (%)	12.8	9.7	8.1	10.5	11.2	
Net Profit	7,500.6	5,650.6	3,989.1	5,793.9	6,966.1	7.2%
EPS (₹)	248.3	187.1	132.1	191.8	230.6	
P/E	28.7	38.0	53.9	37.1	30.9	
RoNW (%)	16.3	11.7	7.8	10.6	11.7	
RoIC (%)	59.9	24.4	12.1	26.9	35.2	

Source: ICICI Direct Research, Company

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (Chg %)	Q1FY21	QoQ (Chg %)	Comments
Total Operating Income	18,745	19,327	16,985	10.4	4,107	356.5	Topline came in lower than our estimates tracking higher than anticipated decline in ASPs
Raw Material Expenses	13,114	13,714	12,099	8.4	2,936	346.6	
Employee Expenses	827	870	838	-1.4	730	13.2	Employee costs in Q2FY21 were at 4.4% of sales
Other expenses	2,870	2,748	2,441	17.6	1,303	120.2	Other expenses for the quarter came in ahead of estimates at ~15.3% of sales
Operating Profit (EBITDA)	1,934	1,995	1,606	20.4	-863	-324.0	
EBITDA Margin (%)	10.3	10.3	9.5	86 bps	-21.0	3134 bps	EBITDA margins matched our estimates tracking divergent forces of decline in RM costs and increase in other expenses
Other Income	603	721	920	-34.5	1,318	-54.3	
Depreciation	766	897	926	-17.3	783	-2.2	Depreciation was tad lower than our estimates
Interest	22	30	28	-20.6	17	29.5	
Total Tax	376.2	402.5	213.4	76.3	-96.3	-490.7	Tax rate for quarter came in marginally lower at 21.5% vs. our expectation of ~25%
PAT	1,372	1,387	1,359	1.0	-249	-650.0	
EPS	45.4	45.9	45.0	1.0	-8.3	-650.0	PAT broadly in line with our estimates
Key Metrics							
ASP (₹)	449,961	465,985	476,488	-5.6	480,098	-6.3	ASP for quarter at ₹ 4.5lakh/unit, down 6% QoQ depicting adverse product mix
Discounts (₹)	17,300	22,000	25,761	-32.8	25,000	-30.8	Discounts lower in marketplace with discounts for Q2FY21 coming in at ₹ 17300/unit

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E		Comments
	Old	New	% Change	Old	New	% Change	Introduced		
Total Operating Income	63,173	62,393	-1.2	75,854	72,577	-4.3	81,592		We tweak our volume & ASPs estimates for FY21E, FY22E leading to marginal change in headline numbers. Introduced FY23E sales estimates. We expect operating revenues to grow at a CAGR of 2.6% CAGR over FY20-23E
EBITDA	5,273	5,051	-4.2	8,333	7,622	-8.5	9,128		
EBITDA Margin (%)	8.3	8.1	-25 bps	11.0	10.5	-48 bps	11.2		We revise downward our margin estimates tracking commodity price headwinds as well as deteriorating product mix, going forward
PAT	3,774	3,989	5.7	6,146	5,794	-5.7	6,966		
EPS (₹)	125	132	5.7	203	192	-5.7	231		On earnings front, we expect MSIL to report earnings CAGR of 7.2% in FY20-23E

Source: ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier		Comments	
	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Total Volumes (lakh units)	17.8	18.6	15.6	13.3	15.9	17.5	12.9	15.4	Given MSIL's market leadership in the domestic PV segment, especially PC sub-segment, which is witnessing robust demand prospects amid the need for personal mobility, we revise upward our sales volume estimates for FY21-22E. We expect sales volume to decline ~15% in FY21E and, thereafter, grow at ~20% YoY in FY22E. We introduce FY23E numbers
Average ASPs (₹ lakh/unit)	4.39	4.46	4.59	4.43	4.30	4.39	4.62	4.66	General consumer behaviour of buying less expensive car variants amid hit on personal income due to Covid-19 and stiff competition faced by MSIL in UV space leads us to downward revise our ASP estimates for FY21-22E
RMC/Unit (₹ lakh/unit)	3.09	3.24	3.45	3.31	3.22	3.30	3.51	3.50	
Discount (₹/unit)	15,895	18,334	23,688	18,075	15,000	15,000	18,750	15,000	

Source: ICICI Direct Research

Conference call highlights

Management outlook/guidance and demand

- **Pent up demand as well as shift to personal mobility is aiding PV sector performance in recent months. The festive period has begun well in Kerala and Western India, with rural geographies doing better than urban counterparts. Increase share of first time buyers and reduced share of replacement demonstrate increasing preference for private vehicle ownership**
- **The company retailed >90,000 units during Navratri period, up >20% YoY**
- **For MSIL, downtrading i.e. higher demand for lower priced variants/smaller capacity cars was visible during the quarter. MSIL's rural retail volumes grew 10% YoY during Q2FY21 vs. 4% overall retail growth, taking rural contribution to 41% vs. 38.5% YoY. CNG formed 11.2% of total sales vs. 7.1% last year**
- **Outlook beyond December is unclear but demand till that time is expected to be healthy**
- **Capacity utilisation levels are ~85-90% currently**
- **The company sources Baleno and Swift models from SMG. SMG sourcing for Q2FY21 was at 96,835 units**

Industry trends and consumer insights

- **Top 10 cities contributed ~36% to industry sales in H1FY20 vs. ~31% in H1FY21**
- **Share of replacement buyers in overall demand was at ~18.8% vs. ~26.4% YoY while share of first-time buyers rose ~5% YoY to ~48%**
- **Share of diesel at industry level is at ~17%**

Costs and margins

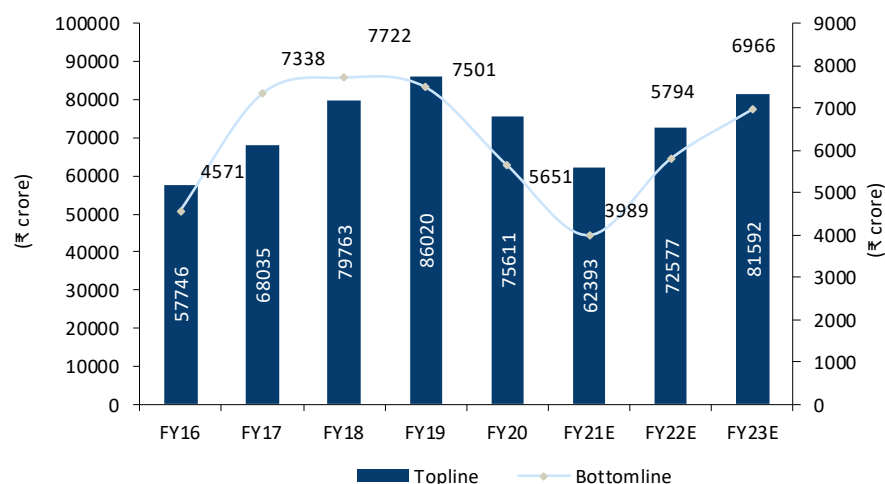
- **Increase in commodity costs and unfavourable forex movement depleted margins by ~1.3% and ~0.5%, respectively, (on YoY basis) in H1FY21. The company expects further commodity cost headwinds over H2FY21E due to increase in prices of steel and precious metals like rhodium**
- **MSIL could not take price hikes due to uncertain demand environment during much of Q2FY21**
- **Discounts during Q2FY21 were at ₹ 17,300/unit vs. >₹ 25,000 last year**
- **Export sales in Q2FY21 were at ₹ 1,011 crore**
- **Royalty rate was at 5% of sales vs. 5.3% last year**

Others

- **Inventory levels as of September end were at 1.2 lakh units**
- **Financing penetration was at 80%, unchanged YoY. Overall financing situation is getting better courtesy improved liquidity and lower interest rates but pace of disbursal by financiers is yet to pick up adequately**

Financial story in charts

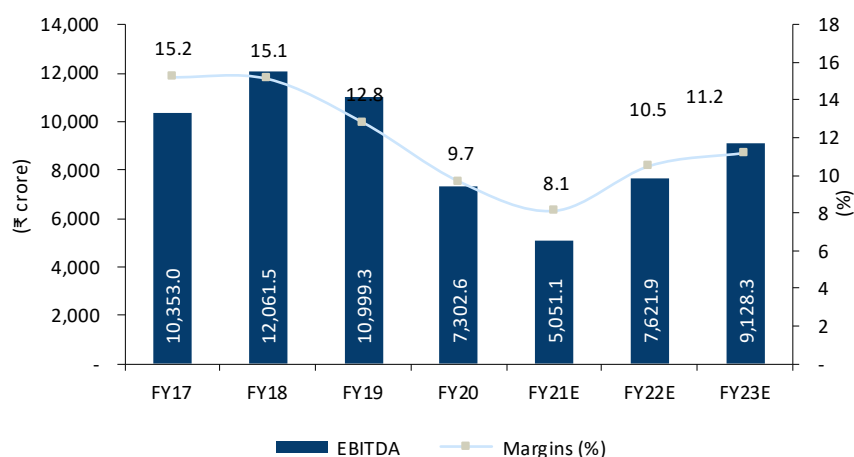
Exhibit 4: Topline and bottomline trend



Source: Company, ICICI Direct Research

We expect total operating income to grow at 2.6% CAGR over FY20-23E while profitability is seen improving at 7.2% CAGR during the time

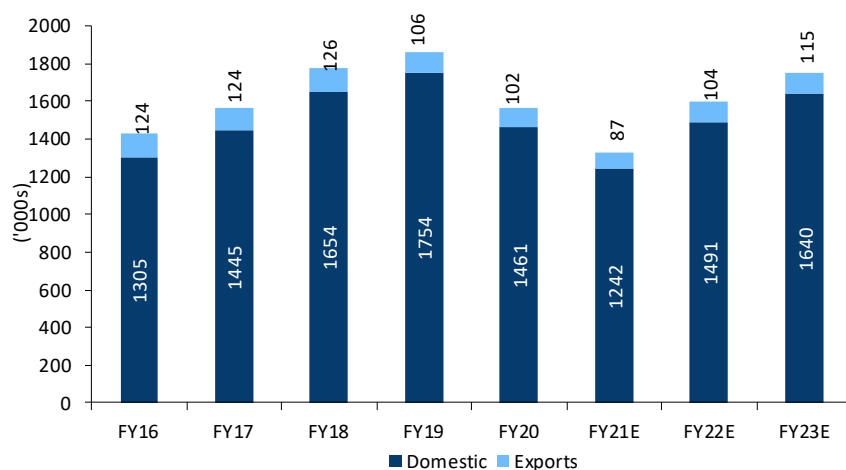
Exhibit 5: EBITDA trend and margin profile



Source: Company, ICICI Direct Research

EBITDA margins are seen rising from FY21E lows during FY22E and FY23E but continued deterioration in product mix could delay pace of uptick

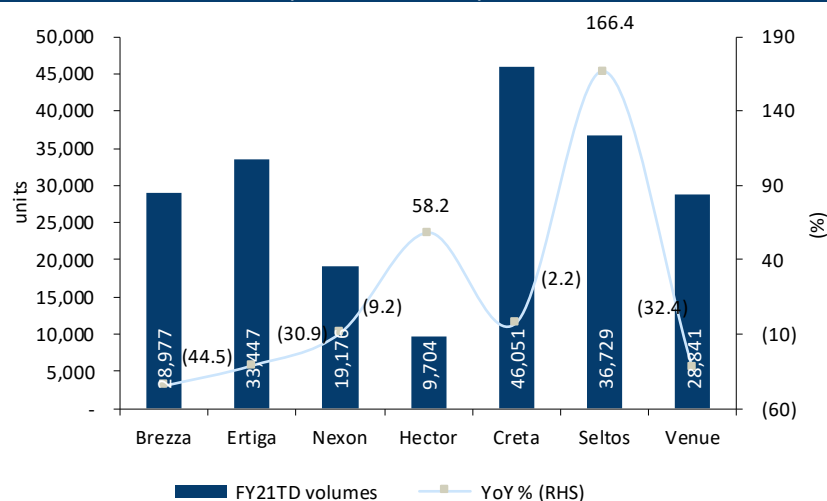
Exhibit 6: Domestic vs. exports volume trend



Source: Company, ICICI Direct Research

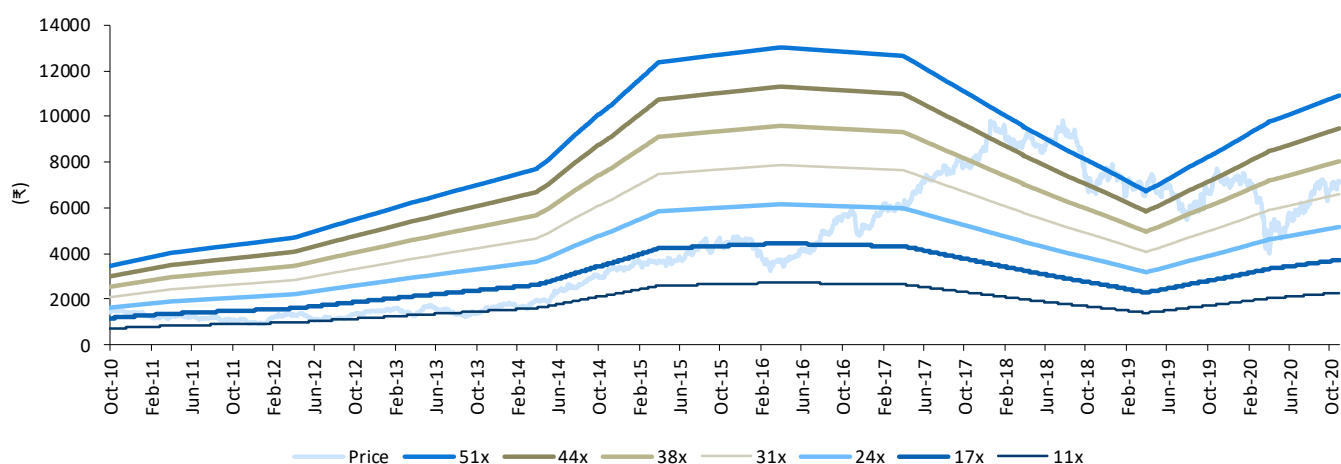
We expect ~4% volume CAGR over FY20-23E

Exhibit 7: MSIL UV model performance vs. peers (H1FY21)



Source: SIAM, ICICI Direct Research

Exhibit 8: MSIL currently trades at ~31x FY23E EPS



Source: Bloomberg, ICICI Direct Research

Exhibit 9: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY 19	86,020	7.8	248	(2.9)	28.7	16.3	16.3	16.3
FY 20	75,611	(12.1)	187	(24.7)	38.0	24.5	11.7	7.4
FY 21E	62,393	(17.5)	132	(29.4)	53.9	35.1	7.8	3.6
FY 22E	72,577	16.3	192	45.2	37.1	22.7	10.6	7.6
FY 23E	81,592	12.4	231	20.2	30.9	18.4	11.7	9.2

Source: Bloomberg, ICICI Direct Research

Exhibit 10: Shareholding pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	56.2	56.2	56.3	56.3	56.4
FII	23.4	23.2	21.6	21.5	21.9
DII	15.0	15.6	16.7	17.1	16.8
Others	5.4	5.0	5.4	5.2	5.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Total operating income	75,611	62,393	72,577	81,592	
Growth (%)	-12.1	-17.5	16.3	12.4	
Raw Material Expenses	53,995	44,047	51,402	57,935	
Employee Expenses	3,384	3,224	3,432	3,656	
Other expenses	10,929	10,071	10,122	10,872	
Total Operating Expenditure	68,308	57,341	64,955	72,463	
EBITDA	7302.6	5051.1	7621.9	9128.3	
Growth (%)	-34	-31	51	20	
EBITDA margins (%)	9.7	8.1	10.5	11.2	
Depreciation	3,526	3,120	3,266	3,427	
Interest	133	106	96	86	
Other Income	3,421	3,276	3,216	3,373	
PBT	7,065	5,101	7,476	8,989	
Total Tax	1,414	1,112	1,682	2,022	
Tax Rate (%)	20.0	21.8	22.5	22.5	
PAT	5650.6	3989.1	5793.9	6966.1	
Growth (%)	-24.7	-29.4	45.2	20.2	
EPS (₹)	187.1	132.1	191.8	230.6	

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	5,651	3,989	5,794	6,966	
Add: Depreciation	3,526	3,120	3,266	3,427	
Sub: Other Income	3,421	3,276	3,216	3,373	
(Inc)/dec in Current Assets	-50	1,049	-1,002	-887	
Inc/(dec) in CL and Provision	-2,812	-2,175	1,471	1,302	
Others	133	106	96	86	
CF from operating activities	3025.9	2812.8	6409.1	7521.3	
(Inc)/dec in Investments	-328	-1,800	-4,050	-5,050	
(Inc)/dec in Fixed Assets	-3,637	-2,500	-3,000	-3,000	
Others	891	-310	-310	-310	
Add: Other income	3,421	3,276	3,216	3,373	
CF from investing activities	347.5	-1333.9	-4144.3	-4986.9	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	-43	-10	-20	-20	
Dividend paid & dividend tax	-2,175	-1,359	-2,115	-2,417	
Others	-1,313	-106	-96	-86	
CF from financing activities	-3531.3	-1475.7	-2230.2	-2522.8	
Net Cash flow	-158	3	35	12	
Opening Cash	179	21	24	59	
Closing Cash	21.1	24.3	58.9	70.5	

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Liabilities					
Equity Capital	151	151	151	151	
Reserve and Surplus	48,286	50,916	54,595	59,144	
Total Shareholders funds	48437.0	51066.7	54746.0	59295.5	
Total Debt	106	96	76	56	
Deferred Tax Liability	598	598	598	598	
Others Liabilities	2,222	2,262	2,302	2,342	
Total Liabilities	51363.6	54023.3	57722.6	62292.1	
Assets					
Gross Block	30,391	33,228	36,478	39,728	
Less: Acc Depreciation	14,610	17,729	20,995	24,422	
Net Block	15781.2	15499.0	15483.0	15306.1	
Capital WIP	1,337	1,000	750	500	
Total Fixed Assets	17,119	16,499	16,233	15,806	
Investments	36467.6	38517.6	42817.6	48117.6	
Inventory	3,215	2,564	2,983	3,353	
Debtors	2,127	2,051	2,386	2,682	
Loans and Advances	17	14	16	18	
Other Current Assets	1,829	1,509	1,755	1,973	
Cash	21.1	24.3	58.9	70.5	
Total Current Assets	7,209	6,163	7,199	8,098	
Creditors	7,494	5,983	6,959	7,824	
Provisions	680	543	631	710	
Other current Liabilities	3,015	2,488	2,894	3,253	
Total Current Liabilities	11,189	9,013	10,484	11,787	
Net Current Assets	-3979.9	-2850.5	-3285.3	-3689.0	
Other Assets	1,757	1,857	1,957	2,057	
Application of Funds	51363.6	54023.3	57722.6	62292.1	

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	187.1	132.1	191.8	230.6
Cash EPS	303.8	235.3	299.9	344.0
BV	1,603.4	1,690.5	1,812.3	1,962.9
DPS	60.0	45.0	70.0	80.0
Cash Per Share	1,186.1	1,245.8	1,381.0	1,548.6
Operating Ratios				
EBITDA Margin (%)	9.7	8.1	10.5	11.2
PBIT / Net sales (%)	5.0	3.1	6.0	7.0
PAT Margin (%)	7.5	6.4	8.0	8.5
Inventory days	15.5	15.0	15.0	15.0
Debtor days	10.3	12.0	12.0	12.0
Creditor days	36.2	35.0	35.0	35.0
Return Ratios (%)				
RoE	11.7	7.8	10.6	11.7
RoCE	7.4	3.6	7.6	9.2
RoIC	24.4	12.1	26.9	35.2
Valuation Ratios (x)				
P/E	38.0	53.9	37.1	30.9
EV / EBITDA	24.5	35.1	22.7	18.4
EV / Net Sales	2.4	2.8	2.4	2.1
Market Cap / Sales	2.8	3.4	3.0	2.6
Price to Book Value	4.4	4.2	3.9	3.6
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	0.9	0.9	0.9
Quick Ratio	0.5	0.5	0.5	0.5

Source: Company, ICICI Direct Research

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

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Apollo Tyre (APOTYR)	143	120	Hold	8,180	8.3	4.9	8.9	17.2	29.1	16.1	7.4	6.4	5.5	4.7	4.7	6.6	4.8	2.5	4.9
Ashok Leyland (ASHLEY)	80	90	Buy	23,417	0.8	0.3	2.5	98.1	301.3	32.3	21.6	26.9	13.9	4.5	2.3	9.2	4.7	1.1	9.4
Bajaj Auto (BAAUTO)	2,930	3,570	Buy	84,785	176.2	142.5	180.2	16.6	20.6	16.3	13.2	14.7	10.6	23.9	24.1	27.3	25.6	18.5	20.7
Bharat Forge (BHAFOR)	453	415	Hold	21,090	7.5	3.5	13.7	60.4	130.0	33.1	21.2	28.8	15.9	5.8	2.2	7.9	7.8	3.0	11.1
Eicher Motors (EICMOT)	2,135	2,470	Buy	58,200	67.0	46.6	71.3	31.8	45.8	30.0	23.6	29.6	20.3	17.3	11.5	15.4	18.3	11.6	15.4
Escorts (ESCORT)	1,190	1,375	Buy	14,587	39.6	46.1	54.5	30.0	25.8	21.8	20.2	17.2	14.4	18.9	15.0	15.2	14.2	11.2	11.8
Exide Industries (EXIIND)	157	180	Buy	13,345	9.7	6.3	8.9	11.8	18.0	12.9	9.6	11.9	9.2	15.7	10.3	13.5	13.4	8.2	10.7
Hero Moto (HERHON)	2,900	3,450	Buy	57,913	181.9	123.6	161.8	15.9	23.5	17.9	13.0	14.9	11.2	21.3	16.6	20.6	22.7	16.0	19.0
M&M (MAHMAH)	593	760	Buy	73,722	11.2	29.1	40.0	53.2	20.4	14.8	12.1	12.5	9.4	12.9	10.8	13.8	6.4	9.2	11.6
Maruti Suzuki (MARUTI)	7,115	6,335	Reduce	2,14,930	187.1	132.1	191.8	38.0	53.9	37.1	24.5	35.1	22.7	7.4	3.6	7.6	11.7	7.8	10.6
Minda Industries (MININD)	319	370	Hold	8,364	5.9	2.8	10.0	54.0	113.3	31.8	15.1	17.5	11.3	10.2	6.3	12.7	10.3	4.0	13.0
Tata Motors (TATMOT)	132	165	Buy	47,490	-33.3	-16.6	6.1	NM	NM	21.6	5.1	4.7	3.4	1.3	2.8	6.4	-18.7	-10.6	3.7

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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