Maruti Suzuki

Accumulate

DART
DOLAT ANALYSIS & RESEARCH THEMES
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Result Update

Healthy order book and low inventory to drive earnings

- Maruti Suzuki's 3QFY21 EBITDA margin at 9.5% was below estimates impacted by increase in input cost (GPM slipped by 257bps QoQ), unfavorable FX movement and salary increments to employees. The company has taken an average price hike of ~2% in the month of January 21 to mitigate the impact of RM cost.
- Demand recovery has been good, volume grew 13.4% YoY in 3Q driven by first-time buyers (share increased to 49% vs 43% YoY), pent-up demand, and strong rural market. Low network inventory (21k vehicle, less than 1 week) and robust order backlog (216k vehicle) are augurs well for wholesale volume in coming months.
- Commodity price inflation is quite significant in core commodities as well as precious metals, management believes margin pressure to ease out gradually led by price hike and operating leverage.
- Despite margin pressure in near term, MSIL remains an attractive long term investment bet for domestic discretionary consumption. Improvement in consumer sentiments with recovery in economic activities remains a key trigger for earnings growth. Proven products, cost leadership, strong network and rural presence (+40% sales) define company's intrinsic strengths.
- We expect increasing realization of used cars and recovery in urban demand to aid in faster recovery of replacement demand. We expect a broad-based long term demand recovery to be visible from FY22 as GDP growth/job creation rates pick-up.
- Demand prospects remain upbeat, led by healthy order-book and likely improvement in replacement demand. Near term margins may remain under pressure due to higher commodity prices, any fall in commodity price to be key positive. We estimate 37% CAGR in MSIL's earnings over FY21-23E led by 14% growth in volume and 300bps margin expansion. We value the stock Rs 8,425 (based on 27xFY23E EPS). Maintain Accumulate.

Demand outlook is upbeat

Domestic PV demand has seen a swift recovery after the lockdown was lifted, aided by higher preference for personal safety better financing availability and strong rural demand. We expect Maruti will continue to benefit (cont..)

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	2,34,578	2,07,068	13.3	1,87,445	25.1
Total Expense	2,12,317	1,86,047	14.1	1,68,109	26.3
EBITDA	22,261	21,021	5.9	19,336	15.1
Depreciation	7,413	8,580	(13.6)	7,659	(3.2)
EBIT	14,848	12,441	19.3	11,677	27.2
Other Income	9,937	7,840	26.7	6,025	64.9
Interest	287	217	32.3	224	28.1
EBT	24,498	20,064	22.1	17,478	40.2
Tax	5,084	4,416	15.1	3,762	35.1
RPAT	19,414	15,648	24.1	13,716	41.5
APAT	19,414	15,648	24.1	13,716	41.5
			(bps)		(bps)
Gross Margin (%)	27.5	27.5	(3)	30.0	(257)
EBITDA Margin (%)	9.5	10.2	(66)	10.3	(83)
NPM (%)	8.3	7.6	72	7.3	96
Tax Rate (%)	20.8	22.0	(126)	21.5	(77)
EBIT Margin (%)	6.3	6.0	32	6.2	10

CMP	Rs 7,600
Target / Upside	Rs 8,425 / 11%
NIFTY	13,818

Scrip Details

Equity / FV	Rs 1,510mn / Rs 5
Market Cap	Rs 2,296bn
	USD 31bn
52-week High/Low	Rs 8,329/ 4,001
Avg. Volume (no)	11,52,040
Bloom Code	MSIL IN

Price Performance	1M	3M	12M
Absolute (%)	2	6	9
Rel to NIFTY (%)	3	(12)	(6)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	56.3	56.4	56.4
MF/Banks/FIs	17.7	17.3	15.7
FIIs	21.7	22.0	23.1
Public / Others	4.4	4.3	4.9

Valuation (x)

	FY21E	FY22E	FY23E
P/E	45.1	28.5	24.4
EV/EBITDA	37.7	22.1	18.5
ROE (%)	10.1	14.7	15.5
RoACE (%)	10.1	14.5	15.3

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	6,97,050	8,52,251	9,40,135
EBITDA	60,146	1,01,755	1,20,757
PAT	50,910	80,658	94,242
EPS (Rs.)	168.5	267.0	312.0

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from a shift in demand towards small cars due to faster recovery in demand in rural areas and increasing preference for personal mobility. Although replacement demand is weak now, increasing realization of used cars and recovery in urban demand to aid in faster recovery of replacement demand. Network inventory is also remains much below (less than 1 weeks) vs the normalized level of 4 weeks, this augurs well for channel restocking in coming months.

SUV segment to be focus area for MSIL

In the last 9 months the company has lost market share 300bps loss in market share of UV segment due to unavailability of diesel variant. Hence, MSIL is closely evaluating this opportunity and its re-entry in the above 1.5ltr diesel category. Management Expect SUV share to improve by 400-500bps in near to medium term. This will be positive for realization and volume both. Jimny exports have commenced, and markets being targeted are Latin America, Middle east and Africa markets. Company is evaluating launch of this model for domestic market.

Margin levers in place

We expect MSIL's EBITDA margins to remain under pressure in the near term due to commodity inflation, adverse product mix, adverse currency movement (JPY/INR). Management is aggressively working towards bringing down the fixed cost, model development cost and increasing localization levels. We expect sharper recovery in margin from FY22, driven by operating leverage, price hike, easing off commodity prices and cost cutting measures.

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 market share). 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 such a business model for dealers which helps them to make some money even if they sell vehicles in loss by cross selling other products such as insurance, spare parts, accessories etc.

Conference Call Highlights

- During the quarter operating margin was impacted due to increase in commodity prices (~300bps) and adverse FX movement, however it was partially offset by cost reduction efforts.
- Current inventory for MSIL at beginning of January is less than one week. Average discount is Rs.20.1k/vehicle during the quarter. Company has order back log of 216k unit.
- Post festive demand has been good so far. Demand from urban market started improving whereas rural market is continuously doing well, rural market share stood at 40% for the quarter.
- Management expect margin to be under pressure due to increasing commodity prices in near term. Increase in precious commodity prices such as Platinum has impacted the margin during the quarter and expect Q4FY21 to be also impacted. However, company is working on various cost measures to mitigate the higher input cost.
- MSIL has not yet impacted by shortage of key raw material like semi-conductor as compared to other OEM.
- Overall sales conversion ratio is 12%, however digital channel conversion is comparatively low. Enquiry from digital channel has improved to 30% currently from 3% in 2016.

- Replacement demand for Q3Y21 was 19% vs 26% last year. Financing penetration is around 80%. In PC company gain market share however it loses some market share in SUV segment. Management expect SUV share to improve by 400-500bps over 4-5 years.
- First time car buyer segment improved by 5% and second car segment improved by 2%, Share of first time buyer improved to 48-49% vs 43-44% last year.
- Adoption of EV is minuscule at global level due to 1) high battery technology (50% of vehicle cost), 2) charging infrastructure and 3) Range anxiety. Management expect EV transition to happen through Hybrid electric vehicle.
- Royalty for the quarter is 4.9% vs 5% in previous quarter. Management expect 90-96% models to move to INR based royalty by 2023.
- PAT grew by 24% YoY to Rs.19.4bn led by higher other income. Export revenue stood at Rs.13.8 bn.
- Company has started export of Jimny model to LATM, Middle est and African market.

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	Dart Estimates	Variance (%)	Comments
Revenue	2,34,578	2,37,745	(1)	
EBIDTA	22,261	26,152	(15)	Higher RM and adverse forex movement
EBIDTA Margin (%)	9.5	11.0	(151) bps	
PAT	19,414	18,587	4	

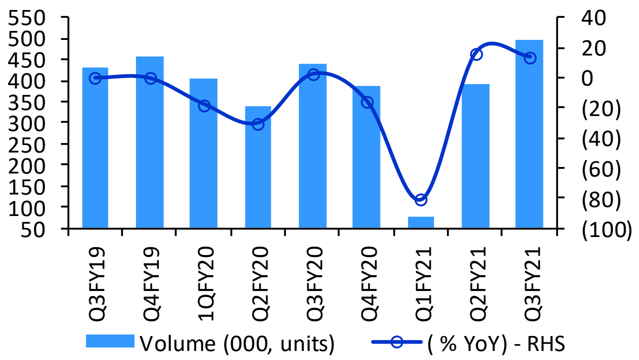
Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Volumes (in mn)	1.72	1.64	5.4	1.85	1.83	0.9
Net sales	8,52,251	8,11,662	5.0	9,40,135	9,18,057	2.4
EBITDA	1,01,755	1,01,439	0.3	1,20,757	1,23,429	-2.2
EBITDA margin	11.9	12.5	(55.8)bps	12.8	13.4	(60.0)bps
APAT	80,658	78,260	3.1	94,242	94,425	-0.2
EPS (Rs)	267	259	3.1	312	313	-0.2

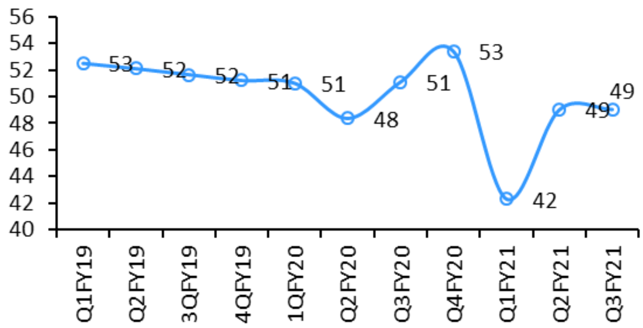
Source: Company, DART

Exhibit 3: Volume grew YoY/QoQ



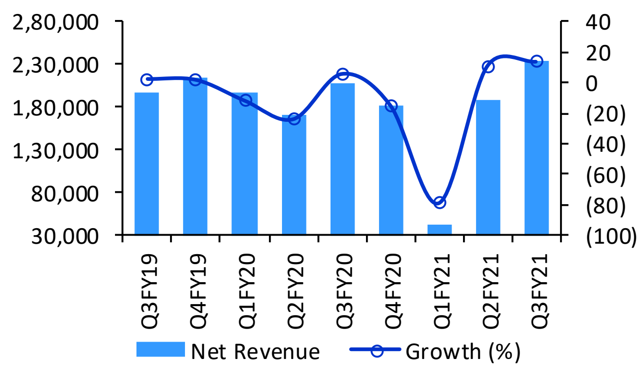
Source: Company, DART

Exhibit 4: PV market share remain healthy QoQ



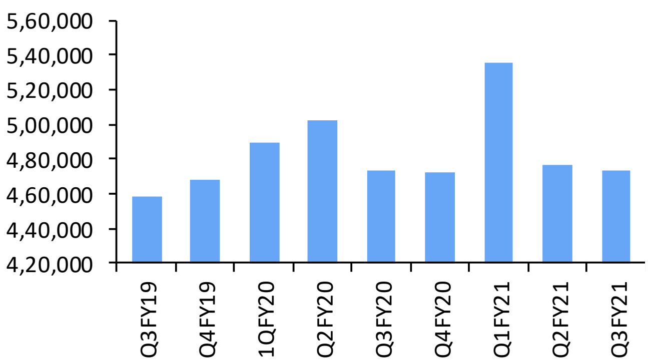
Source: SIAM, DART

Exhibit 5: Net revenue increase YoY/QoQ



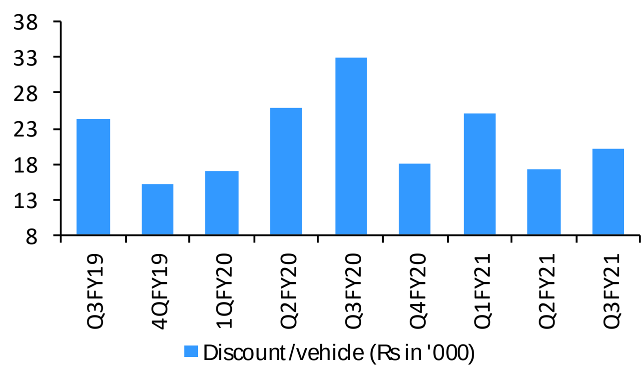
Source: Company, DART

Exhibit 6: Net ASP weaken YoY/QoQ on adverse product mix



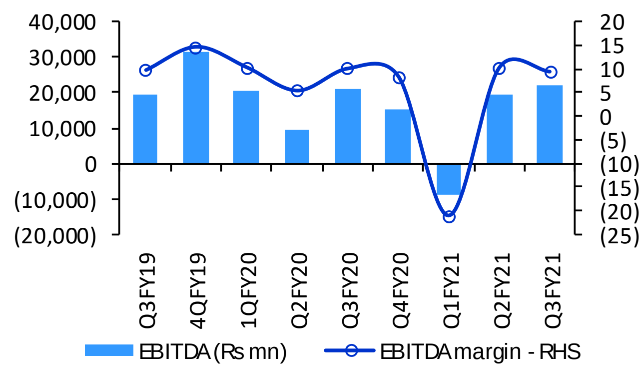
Source: Company, DART

Exhibit 7: Disc. level increased QoQ



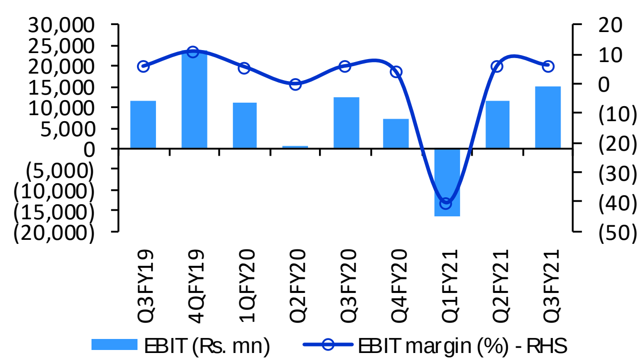
Source: Company, DART

Exhibit 8: EBITDA margin contacted YoY/QoQ on higher RM cost



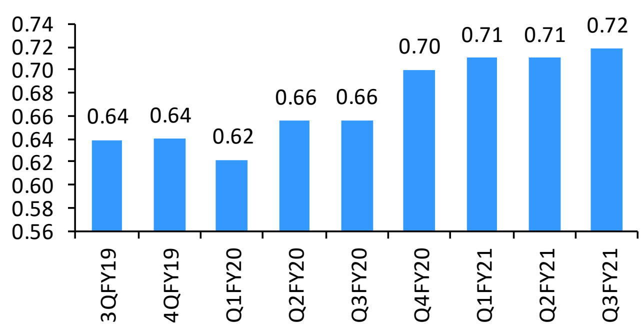
Source: Company, DART

Exhibit 9: EBIT improved YoY/QoQ



Source: Company, DART

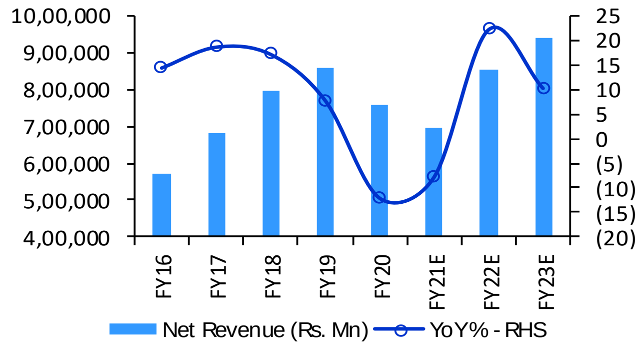
Exhibit 10: Forex movement remain unfavorable



Source: Company, DART

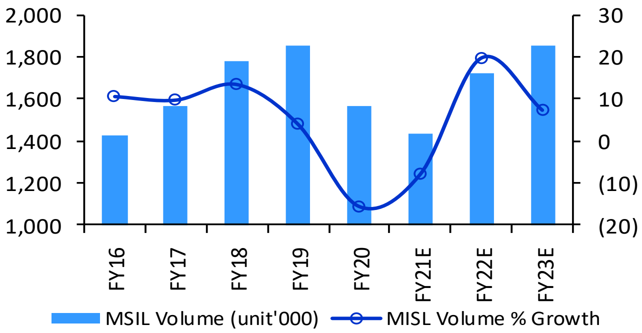
Annual Charts

Exhibit 11: Sharp recovery expected from FY22



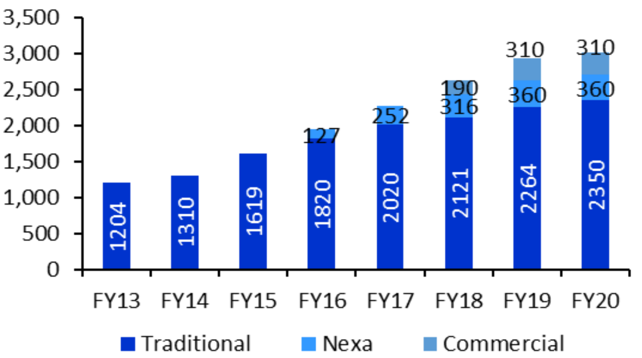
Source: Company, DART

Exhibit 12: MSIL Volume (14% CAGR over FY21-23E)



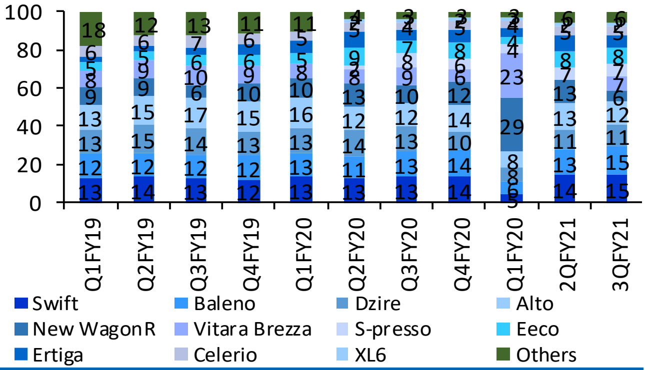
Source: Company, DART

Exhibit 13: MSIL Dealership Network



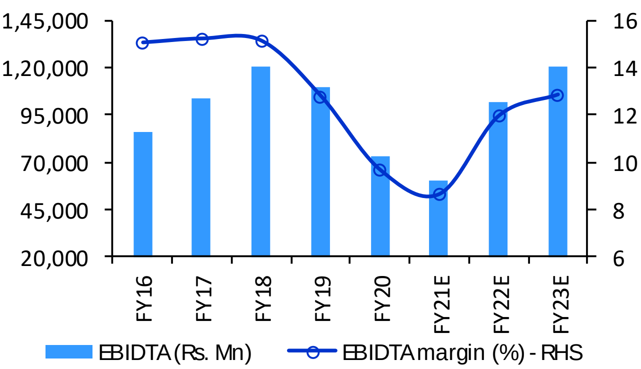
Source: Company, DART

Exhibit 14: Swift/ Baleno continues doing well



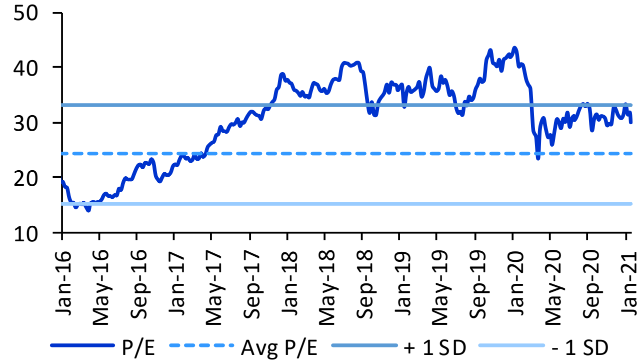
Source: Company, DART

Exhibit 15: Margin to improve on Oplev



Source: Company, DART

Exhibit 16: 1 year forward P/E



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**7,56,106**	**6,97,050**	**8,52,251**	**9,40,135**
Total Expense	**6,83,080**	**6,36,904**	**7,50,496**	**8,19,378**
COGS	5,31,566	4,94,906	5,94,873	6,52,457
Employees Cost	33,839	34,516	37,277	41,005
Other expenses	1,17,675	1,07,482	1,18,346	1,25,916
EBIDTA	**73,026**	**60,146**	**1,01,755**	**1,20,757**
Depreciation	35,257	30,546	33,285	35,121
EBIT	**37,769**	**29,600**	**68,470**	**85,636**
Interest	1,329	450	300	250
Other Income	34,208	37,837	40,097	41,969
Exc. / E.O. items	0	0	0	0
EBT	**70,648**	**66,987**	**1,08,267**	**1,27,356**
Tax	14,142	16,077	27,609	33,114
RPAT	56,506	50,910	80,658	94,242
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**56,506**	**50,910**	**80,658**	**94,242**

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	5,18,498	5,74,155	6,38,243
Net Worth	**4,84,370**	**5,20,008**	**5,75,665**	**6,39,753**
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**	**5,29,015**	**5,85,172**	**6,49,760**
Applications of Funds				
Net Block	**1,52,129**	**1,54,957**	**1,66,671**	**1,76,551**
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**	**1,21,493**	**1,45,077**	**1,76,011**
Inventories	32,149	28,646	35,024	41,211
Receivables	21,270	22,917	23,349	28,333
Cash and Bank Balances	4,869	16,037	27,707	43,713
Loans and Advances	5,246	13,941	17,045	18,803
Other Current Assets	37,702	39,952	41,952	43,952
Less: Current Liabilities & Provisions	**1,26,350**	**1,54,296**	**1,79,438**	**1,98,664**
Payables	74,914	97,717	1,17,201	1,30,202
Other Current Liabilities	51,436	56,580	62,238	68,461
sub total				
Net Current Assets	(25,114)	(32,803)	(34,361)	(22,652)
Total Assets	**4,92,877**	**5,29,015**	**5,85,172**	**6,49,760**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	29.7	29.0	30.2	30.6
EBIDTA Margin	9.7	8.6	11.9	12.8
EBIT Margin	5.0	4.2	8.0	9.1
Tax rate	20.0	24.0	25.5	26.0
Net Profit Margin	7.5	7.3	9.5	10.0
(B) As Percentage of Net Sales (%)				
COGS	70.3	71.0	69.8	69.4
Employee	4.5	5.0	4.4	4.4
Other	15.6	15.4	13.9	13.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	28.4	65.8	228.2	342.5
Inventory days	16	15	15	16
Debtors days	10	12	10	11
Average Cost of Debt	103.9	42.3	28.2	23.5
Payable days	36	51	50	51
Working Capital days	(12)	(17)	(15)	(9)
FA T/O	5.0	4.5	5.1	5.3
(D) Measures of Investment				
AEPS (Rs)	187.1	168.5	267.0	312.0
CEPS (Rs)	303.8	269.7	377.2	428.2
DPS (Rs)	60.0	50.6	82.8	99.8
Dividend Payout (%)	32.1	30.0	31.0	32.0
BVPS (Rs)	1603.4	1721.4	1905.7	2117.8
RoANW (%)	11.9	10.1	14.7	15.5
RoACE (%)	12.0	10.1	14.5	15.3
RoAIC (%)	7.9	5.9	12.8	14.7
(E) Valuation Ratios				
CMP (Rs)	7600	7600	7600	7600
P/E	40.6	45.1	28.5	24.4
Mcap (Rs Mn)	22,95,808	22,95,808	22,95,808	22,95,808
MCap/ Sales	3.0	3.3	2.7	2.4
EV	22,79,814	22,66,646	22,52,976	22,34,970
EV/Sales	3.0	3.3	2.6	2.4
EV/EBITDA	31.2	37.7	22.1	18.5
P/BV	4.7	4.4	4.0	3.6
Dividend Yield (%)	0.8	0.7	1.1	1.3
(F) Growth Rate (%)				
Revenue	(12.1)	(7.8)	22.3	10.3
EBITDA	(33.6)	(17.6)	69.2	18.7
EBIT	(52.7)	(21.6)	131.3	25.1
PBT	(32.5)	(5.2)	61.6	17.6
APAT	(24.7)	(9.9)	58.4	16.8
EPS	(24.7)	(9.9)	58.4	16.8

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	34,051	1,02,816	1,29,674	1,36,165
CFI	(4,639)	(76,374)	(93,000)	(90,000)
CFF	(31,000)	(17,748)	(29,056)	(35,045)
FCFF	3,450	68,442	83,674	90,165
Opening Cash	1,789	4,869	16,037	27,707
Closing Cash	4,869	16,037	27,707	43,713

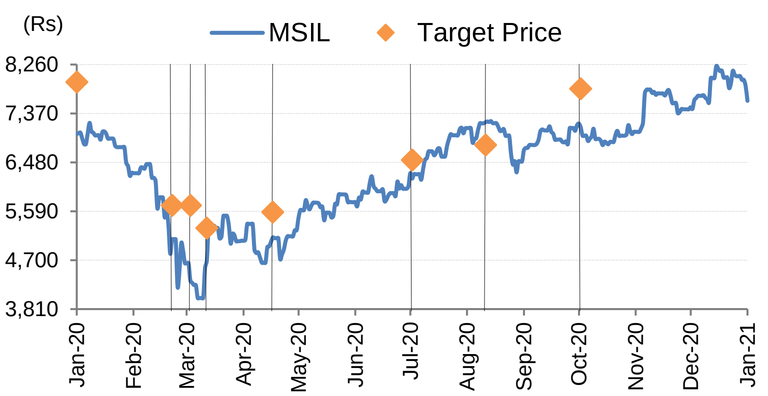
E – Estimates

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.)
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
Jul-20	Reduce	6,519	6,185
Sep-20	Reduce	6,791	7,209
Oct-20	Accumulate	7,815	7,118

**Price as on recommendation date*

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