Maruti Suzuki India Limited

On a cautious drive amid mixed Q4

Automobiles	Sharekhan code: MARUTI	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 6,558**	
Price Target: **Rs. 8,587**	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

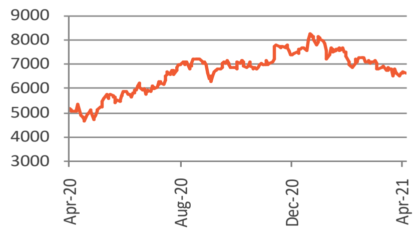
Company details

Market cap:	Rs. 1,98,104 cr
52-week high/low:	Rs. 8,400/4,640
NSE volume: (No of shares)	11.1 lakh
BSE code:	532500
NSE code:	MARUTI
Free float: (No of shares)	13.2 cr

Shareholding (%)

Promoters	56.4
FII	23.1
DII	15.1
Others	5.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.6	-15.0	-5.2	28.2
Relative to Sensex	-3.7	-14.7	-23.8	-26.0

Sharekhan Research, Bloomberg

Summary

- We remain positive on Maruti Suzuki India Limited (MSIL) as its structural growth outlook remains intact, balance sheet is healthy and valuations are attractive
- Revenues slightly beat our expectations but operating performance missed the mark owing to a sharp rise in raw material prices and adverse forex fluctuations.
- MSIL is likely to benefit from buoyant demand for passenger vehicles, driven by rising demand in tier-2 and tier-3 cities and rural areas. MSIL is expected to sustain dominant market share, aided by a strong product portfolio and positioning, brand appeal and ability to frequently launch new models.
- We expect earnings to clock a 43% CAGR during FY21-23E, driven by 21.9% revenue CAGR and a 390 bps improvement in EBITDA margin. The stock is trading at P/E of 22.9x and EV/EBITDA of 16.5x its FY2023 estimates. We retain a Buy rating with a revised PT of Rs 8,587.

Maruti Suzuki Limited's (MSIL's) revenues were slightly higher than our expectations in Q4FY21 but operating performance missed the mark led by a sharp rise in raw material prices and adverse forex fluctuations. Net revenue grew by 32% y-o-y at Rs. 24,024 crore in Q4FY2021, driven by a 27.8% growth in volumes and a 3.3% rise in average realisations that improved on back of improved product mix and price hikes taken by the company. EBITDA margins declined 21 bps y-o-y and 120 bps q-o-q at 8.3%, leading to slower EBITDA growth of 28.8% y-o-y and a decline of 10.6% q-o-q at Rs 1,991 crore. Reported EBITDA was below expectations due to a sharp rise in raw material prices and adverse foreign exchange fluctuations. Raw material cost per vehicle increased by 8.7% y-o-y in Q4FY21 as against a 3.3% y-o-y rise in average realisation, leading to 370 bps decline in gross margins. The company took couple of price hikes this year, one in January and the second in April, which is expected to reflect from Q1FY22 onwards. Marred by lower EBITDA margins, the company reported a PAT decline of 9.7% y-o-y and 39.9% q-o-q at Rs 1,166 crore in Q4FY2021. The management was cautiously optimistic on demand outlook for domestic as well as export markets. The company has witnessed strong demand from rural and semi-urban areas, where MSIL's distribution network and product portfolio fits aptly. Improving income levels of individuals, firms and corporates is likely to keep demand strong in the medium term. However, near-term growth would be affected by the temporary lockdowns in a few states, amid a second wave of COVID-19. The government's decision to expedite the vaccination programme will help to minimize the adverse impact of COVID pandemic. We expect FY2022 to be a stronger year for MSIL, driven by strong volume growth. Volume growth will be aided by new product launches, a quick economic recovery, upside from COVID-19 vaccines, and a low base. MSIL's strong distribution network in the passenger vehicle segment and rural penetration are likely to drive strong revenue growth going forward. Volumes are expected to recover from FY2022 with expectations of strong double-digit growth, aided by robust exports as well. MSIL would benefit from operating leverage driven by robust volume growth. We expect MSIL's earnings to grow at 43% CAGR during FY21-23E, driven by 21.9% revenue CAGR and a 390 bps improvement in EBITDA margin. Moreover, core earnings are expected to post an 83.2% CAGR during FY2021E-FY2023E. We expect RoCE to improve to 17.2% in FY2023E from 13.6% in FY2020.

Our Call

Valuation - Maintain Buy with revised PT of Rs. 8,587: MSIL is witnessing strong recovery in domestic demand with sales volumes sustaining growth, despite challenging times. Sales enquiries remain strong, underpinning our view of genuine demand in the PV segment. We expect a strong recovery from FY2022, driven by normalisation of economic activity. Margins are expected to improve from 7.5% in FY2021 to 11.4% in FY2023E, driven by operating leverage and cost-control measures. We remain positive on the company as its structural growth outlook remains intact, healthy balance sheet and attractive valuations. The stock is trading at P/E of 22.9x and EV/EBITDA of 16.5x its FY2023 estimates. We retain a Buy rating on MSIL with a revised PT of Rs 8,587.

Key Risks

If the second wave of COVID-19 persists, our estimates can be adversely affected. In addition, a sharper rise in raw material prices can affect profitability.

Valuation (Standalone) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net sales	86,020	75,611	70,333	89,857	1,04,483
Growth (%)	7.8	(12.1)	(7.0)	27.8	16.3
EBITDA	10,999	7,303	5,287	9,376	11,943
EBIDTA %	12.8	9.7	7.5	10.4	11.4
PAT	7,501	5,651	4,230	6,742	8,646
Growth (%)	(2.9)	(24.7)	(25.1)	59.4	28.2
FD EPS (INR)	248.3	187.1	140.0	223.2	286.2
P/E (x)	26.4	35.1	46.8	29.4	22.9
P/B (x)	4.3	4.1	3.9	3.5	3.2
EV/EBITDA (x)	17.5	27.0	37.3	21.1	16.5
RoE (%)	16.3	11.7	8.2	12.0	13.9
RoCE (%)	20.7	13.6	9.4	14.9	17.2

Source: Company; Sharekhan estimates

Revenues slightly ahead of expectations but operating performance declines on rise in input prices: Maruti Suzuki Limited (MSIL) reported revenues slightly higher than our expectations but missed on operating performance on the back of sharp rise in raw material prices and adverse foreign exchange fluctuations. Net revenue grew 32% y-o-y at Rs 24,024 crore in Q4FY2021, driven by 27.8% growth in volumes and 3.3% rise in average realization. The average realization improved on back of improved product mix and price hikes taken by the company. EBITDA margins declined 21 bps y-o-y and 120 bps q-o-q at 8.3%, leading to slower EBITDA growth of 28.8% y-o-y and a decline of 10.6% q-o-q at Rs 1,991 crore. The reported EBITDA was below expectations due to sharp rise in raw material prices and adverse foreign exchange fluctuations. Raw material cost per vehicle increase 8.7% y-o-y in Q4FY21 as against 3.3% y-o-y rise in average realisation, leading to 370 bps decline in gross margins. The company took couple of price hikes this year, one in January'21 and the second in April'21, the impact of which is expected to come from Q1FY22 onwards. Marred by lower EBITDA margins, the company reported a PAT decline of 9.7% y-o-y and 39.9% q-o-q at Rs 1,166 crore in Q4FY2021.

Management is cautiously optimistic on demand outlook: The management was cautiously optimistic on demand outlook for domestic as well as export markets. The company has witnessed strong demand from rural and semi-urban areas, where MSIL's distribution network and product portfolio fits aptly. Improving income levels of individuals, firms and corporates is likely to keep demand strong in the medium term. However, near-term growth would be affected by the temporary lockdowns in a few states, amid a second wave of COVID-19. The government's decision to expedite the vaccination programme will help to minimize the adverse impact of COVID pandemic. We expect FY2022 to be a stronger year for MSIL, driven by strong volume growth. Volume growth will be aided by new product launches, a quick economic recovery, upside from COVID-19 vaccines, and a low base. MSIL's strong distribution network in the segment and rural penetration are likely to drive strong revenue growth going forward.

Replacement demand fallen but likely to improve: The share of replacement demand has fallen to 19.5% in Q4FY21 from 26% in Q4FY20, due to COVID-19 pandemic. The management expects the replacement buying to bounce back in H2FY22.

MSIL's market share to remain intact despite intense competition: MSIL is likely to benefit from buoyant demand for PVs, driven by rising demand in Tier 2 and 3 cities and rural areas. Rural sales will continue to improve, driven by strong farm sentiments because of higher rainfall and kharif sowing. Rural sales have risen from ~38.5% in Q4FY2020 to 41% in Q4FY2021. We also expect the share of first-time buyers to increase going forward, aided by a preference for personal transportation. The share of new buyers has increased to 50% in Q4FY2021 has gone up by 3.5 percentage points. Despite intense competition in the PV segment, MSIL is expected to sustain its dominant market share, aided by a strong product portfolio and position, brand appeal, and ability to launch new models frequently. MSIL has a stronghold in small and mid-size segments with over 50% market share and high success rates of its new launches. The company's brand positioning as value-for-money products is likely to remain intact due to its products' best fuel efficiency and lower maintenance cost. Moreover, the high resale value of its products attracts customers.

Exports continue to remain buoyant: The management expects export to be a key growth driver going forward, given the improving scenario in other geographies. The company is operating at full capacity, which will keep driving profitability. In January, the company commenced the production of the made-in-India Suzuki 'Jimny' SUV. The first batch has taken off from the Mundra port and is headed to Latin American countries such as Peru and Colombia. These units are manufactured at the Gurugram facility. MSIL is evaluating business prospects for launching 'Jimny' in India.

Extensive network distribution helps MSIL to penetrate rural markets: MSIL has the strongest distribution network and rural penetration in the PV segment that drives its revenue growth. We expect MSIL to benefit from rising rural demand, driven by its reach and low maintenance services costs.

Earnings estimates reduced: We have slashed our margin estimates to build in the impact of rise in commodity prices. However, we expect MSIL's EBITDA margin to retract to more than 12% by FY2024, driven by increasing capacity utilisation, controlling marketing costs through digitalization and productivity gains. We have estimated EBITDA margin to be at 11.4% in FY2023E down from 12.4% earlier.

Strong earnings growth: We expect MSIL's earnings to grow at 43% CAGR during FY21-23E, driven by a 21.9% revenue CAGR and a 390 bps improvement in EBITDA margin. Moreover, core earnings are expected to post an 83.2% CAGR during FY2021E-FY2023E. We expect RoCE to improve to 17.2% in FY2023E from 13.6% in FY2020.

Results Rs cr

Particulars	Q4FY21	Q4FY20	%YoY	Q3FY21	%QoQ
Revenues	24,023.7	18,198.7	32.0	23,457.8	2.4
EBIDTA	1,991.1	1,546.4	28.8	2,226.1	-10.6
EBIDTA Margins (%)	8.3	8.5	(21 bps)	9.5	(120 bps)
Depreciation	741.0	823.0	-10.0	741.3	0.0
Interest	32.4	28.3	14.5	28.7	12.9
Other Income	89.8	880.4	-89.8	993.7	-91.0
PBT	1,307.5	1,575.5	-17.0	2,449.8	-46.6
Tax	141.4	283.8	-50.2	508.4	-72.2
Adjusted PAT	1,166.1	1,291.7	-9.7	1,941.4	-39.9
EPS	38.6	42.8	-9.7	64.3	-39.9

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Maintain our strong recovery in PV demand

The passenger vehicle (PV) industry turned positive in August 2020 and is improving every month after lockdown restrictions were eased. All key OEMs have maintained their targets for Q1FY2022 despite the lockdown-like restrictions in nine states, amid the second wave of COVID-19. We expect this phase to be temporary and expect a strong recovery from FY2022, driven by normalisation of economic activity and pent-up demand. Operating leverage and reduction in discounts due to a pick-up in volumes would lead to the PV industry posting better margins in the coming quarters.

■ Company outlook - Strong earnings growth from the core business

The management was cautiously optimistic on demand outlook for domestic as well as export markets. The company has witnessed strong demand from rural and semi-urban areas, where MSIL's distribution network and product portfolio fits aptly. Improving income levels of individuals, firms and corporates is likely to keep demand strong in the medium term. However, near-term growth would be affected by the temporary lockdowns in a few states, amid a second wave of COVID-19. The government's decision to expedite the vaccination programme will help to minimize the adverse impact of COVID pandemic. We expect FY2022 to be a stronger year for MSIL, driven by strong volume growth. Volume growth will be aided by new product launches, a quick economic recovery, upside from COVID-19 vaccines, and a low base. MSIL's strong distribution network in the segment and rural penetration are likely to drive strong revenue growth going forward.

■ Valuation - Maintain Buy with revised PT of Rs. 8,587

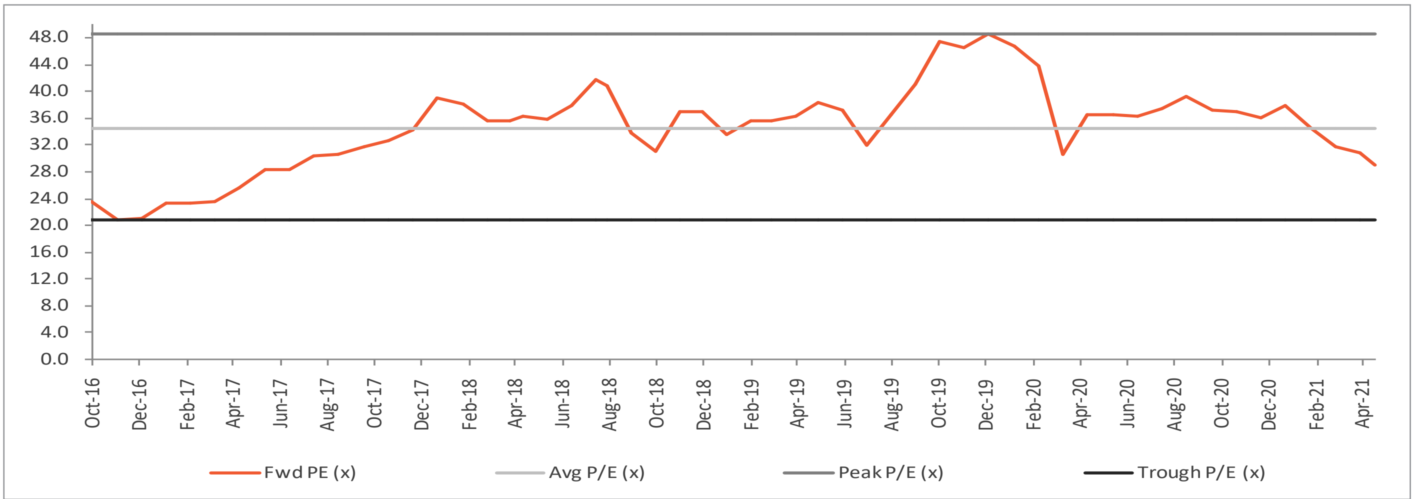
MSIL is witnessing strong recovery in domestic demand with sales volumes sustaining growth, despite challenging times. Sales enquiries remain strong, underpinning our view of genuine demand in the PV segment. We expect a strong recovery from FY2022, driven by normalisation of economic activity. Margins are expected to improve from 7.5% in FY2021 to 11.4% in FY2023E, driven by operating leverage and cost-control measures. We remain positive on the company as its structural growth outlook remains intact, healthy balance sheet and attractive valuations. The stock is trading at P/E of 22.9x and EV/EBITDA of 16.5x its FY2023 estimates. We retain a Buy rating on MSIL with a revised PT of Rs 8,587.

Price target Calculation

Particulars	Rs / Share
FY2023E EPS	286
Target P/E Multiple (x)	30
Target Price (Rs.)	8,587
Upside (%)	31

Source: Company; Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP (Rs)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Maruti Suzuki	6,558	46.8	29.4	22.9	37.3	21.1	16.5	9.4	14.9	17.2
Hero MotoCorp	2,911	15.2	13.7	12.1	9.4	7.7	9.8	26.1	30.7	27.1
Bajaj Auto	3,783	22.8	20.0	17.3	17.0	14.0	11.7	27.7	28.4	28.8

Source: Company, Sharekhan estimates

About company

Maruti Suzuki Limited (MSIL) is India's largest PV car company accounting for over 50% of the domestic car market. The company is the undisputed leader in mini and compact car segments in India and offers full range of cars - entry level, compact cars, and SUVs. MSIL's market share in passenger cars stands at 62%, utility vehicles at 25%, and vans at 90%. MSIL has been steadily ramping up its presence in the hinterlands, with rural sales currently contributing about 41% to overall sales. MSIL is a subsidiary of Suzuki Motor Corporation of Japan. The Japanese car major holds 56.2% stake in MSIL. The company has manufacturing plants in Gurgaon and Manesar.

Investment theme

MSL is likely to be the beneficiary of buoyant demand in the PV segment, driven by rising demand in tier 2 and 3 cities and rural areas. Sales from rural areas will continue to improve, driven by strong farm sentiments because of higher rainfall and kharif sowing. We also expect the share of first-time buyers to increase going forward, aided by preference for personal transportation. MSIL is expected to sustain its dominant market share, despite intense competition in the PV segment, aided by its strong product portfolio and position, brand appeal, and ability to launch new models frequently. MSIL has a strong hold in small and mid-size segments with an over 50% market share and high success rates of its new launches. The company's brand positioning as value-for-money products is likely to remain intact due to its products' best fuel efficiency and lower maintenance cost. In addition, the high resale value of its products attracts customers. Moreover, MSL has the strongest distribution network and rural penetration in the PV segment that drives its revenue growth. We expect MSL to be the beneficiary of rising rural demand, driven by its reach and low maintenance services costs.

Key Risks

- MSIL has a weak SUV portfolio and can restrict growth once urban demand comes back strongly. However, we are more positive on rural demand and believe MSIL to be the beneficiary.
- Rising input prices may impact margins, if rising commodity prices could not be passed on to customers. In a scenario of price competition, MSIL's margin may get impacted negatively.

Additional Data

Key management personnel

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

Source: Company

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

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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