

Another challenging quarter, Multiple challenges ahead

- SML Isuzu reported a dismal performance in Q1FY20. Revenue stood at Rs 287mn (-94% YoY) attributed to sharp 95% fall in volume (202 units) offset by increase in net ASP because of better spare parts revenue. Bus to Truck volume mix was in ratio of 44:56 with market share of 7.8% in the bus segment.
- EBITDA loss stood at Rs 357mn attributable to high RM costs and negative operating leverage. The company reported net loss of Rs 523mn due to poor operating performance.
- We continue to maintain negative view as FY21 could be tough year as challenges persist in the form of regulatory changes (cost rise due to the move from BS-IV to BS-VI) and negative economic impact of Covid-19. As schools and colleges remain shut, we do not see any revival in demand in the bus segment in H2FY21. The increasing penetration of EVs in bus segment and rising competitive intensity are key threats for the company.
- We maintain our negative view on the stock and maintain our Sell rating with a target price of Rs 364 (18x FY23E EPS).

Declining market share in Bus segment

SML's market share in the bus segment diminished by 406bps YoY to 7.8% in Q1FY21. The domestic bus volume de-grew 97% YoY to 86 units while the cargo volume decreased 90% to 108 units in Q1FY21.

The company has already incurred a capex of Rs 2bn in the past two years on technology upgrades, product development (improvement in cabin designing and a new paint shop), and capacity addition. We expect debt to remain flat in the absence of any material capex requirement in the foreseeable future.

Q1FY21 Result (Rs Mn)

| Particulars | Q1FY21 | Q1FY20 | YoY (%) | Q4FY20 | QoQ (%) |
|-------------------|---------|--------|---------|--------|---------|
| Revenue | 287 | 4,714 | (93.9) | 2,722 | (89.4) |
| Total Expense | 644 | 4,349 | (85.2) | 2,636 | (75.6) |
| EBITDA | (357) | 365 | (197.8) | 86 | (513.9) |
| Depreciation | 116 | 100 | 16.6 | 107 | 8.8 |
| EBIT | (473) | 265 | (278.3) | (21) | 2206.8 |
| Other Income | 8 | 7 | 16.7 | 15 | (49.0) |
| Interest | 57 | 47 | 22.9 | 27 | 110.3 |
| EBT | (523) | 225 | (332.1) | (33) | 1498.2 |
| Tax | 0 | 59 | (100.0) | (13) | (100.0) |
| RPAT | (523) | 167 | (413.7) | (20) | 2500.0 |
| APAT | (523) | 167 | (413.7) | (20) | 2500.0 |
| | | | (bps) | | (bps) |
| Gross Margin (%) | 22.2 | 22.5 | (31) | 23.5 | (133) |
| EBITDA Margin (%) | (124.1) | 7.7 | (13189) | 3.2 | (12731) |
| NPM (%) | (181.8) | 3.5 | (18537) | (0.7) | (18110) |
| Tax Rate (%) | 0.0 | 26.0 | (2602) | 38.5 | (3853) |
| EBIT Margin (%) | (164.5) | 5.6 | (17017) | (0.8) | (16379) |

| | |
|-------------------|--------------|
| CMP | Rs 414 |
| Target / Downside | Rs 364 / 12% |
| BSE Sensex | 38,849 |
| NSE Nifty | 11,465 |

Scrip Details

| | |
|------------------|------------------|
| Equity / FV | Rs 145mn / Rs 10 |
| Market Cap | Rs 6bn |
| | US\$ 81mn |
| 52-week High/Low | Rs 665/Rs 280 |
| Avg. Volume (no) | 85,557 |
| NSE Symbol | SMLISUZU |
| Bloomberg Code | SM IN |

Shareholding Pattern Jun'20(%)

| | |
|-----------------|------|
| Promoters | 44.0 |
| MF/Banks/FIs | 1.5 |
| FII | 3.8 |
| Public / Others | 50.8 |

Valuation (x)

| | FY21E | FY22E | FY23E |
|-----------|--------|--------|-------|
| P/E | (7.8) | (24.9) | 20.5 |
| EV/EBITDA | (12.0) | 50.9 | 7.9 |
| ROE (%) | (22.3) | (8.2) | 9.9 |
| RoACE (%) | (14.2) | (3.8) | 9.3 |

Estimates (Rs mn)

| | FY21E | FY22E | FY23E |
|-----------|--------|--------|--------|
| Revenue | 4,946 | 7,986 | 11,829 |
| EBITDA | (557) | 135 | 834 |
| PAT | (772) | (241) | 293 |
| EPS (Rs.) | (53.3) | (16.6) | 20.2 |

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Exhibit 1: Change in Estimates

| Rs Mn | FY21E | | | FY22E | | |
|-------------------|--------|----------|------------|--------|----------|----------|
| | New | Previous | Chg (%) | New | Previous | Chg (%) |
| Revenue | 4,946 | 9,523 | (48.1) | 7,986 | 12,036 | (33.6) |
| EBITDA | (557) | 66 | (948.7) | 135 | 657 | (79.4) |
| EBITDA Margin (%) | (11.3) | 0.7 | (1,195)bps | 1.7 | 5.5 | (377)bps |
| PAT | (772) | (327) | 136.4 | (241) | 105 | (329.7) |
| EPS (Rs) | (53.3) | (22.6) | 136.4 | (16.6) | 7.2 | (329.7) |

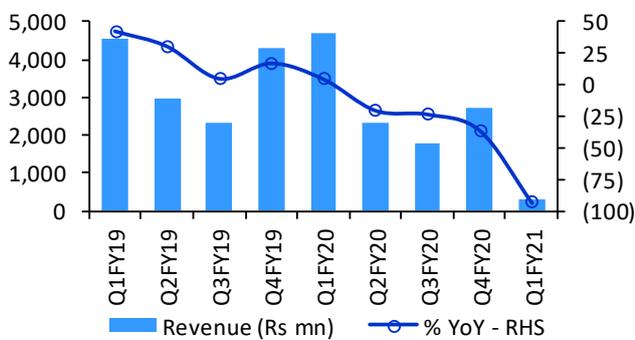
Source: DART, Company

Exhibit 2: Key Assumptions

| (in units) | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------|--------|--------|--------|-------|--------|
| Buses | 7,827 | 6,581 | 3,027 | 4,843 | 6,840 |
| % YoY | 28.2 | (15.9) | (54.0) | 60.0 | 41.2 |
| Trucks | 5,143 | 3,318 | 1,222 | 1,830 | 2,638 |
| % YoY | 7.3 | (35.5) | (63.2) | 49.8 | 44.1 |
| Domestic Volume | 12,970 | 9,899 | 4,249 | 6,673 | 9,478 |
| % YoY | 19.0 | (23.7) | (57.1) | 57.1 | 42.0 |
| Exports | 688 | 595 | 295 | 426 | 609 |
| % YoY | 46.7 | (13.5) | (50.5) | 44.5 | 42.9 |
| Total Volume | 13,658 | 10,494 | 4,543 | 7,099 | 10,086 |
| % YoY | 20.1 | (23.2) | (56.7) | 56.2 | 42.1 |

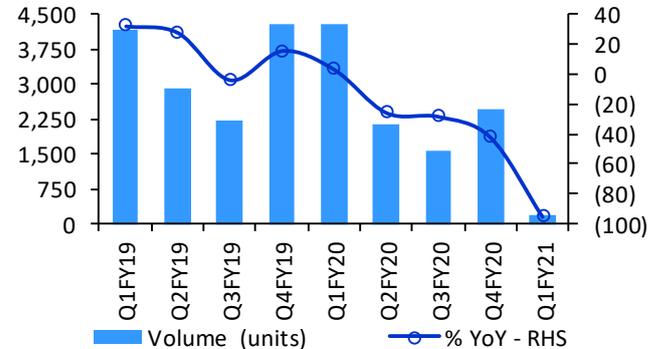
Source: DART, Company

Exhibit 3: Revenue declined YoY/QoQ



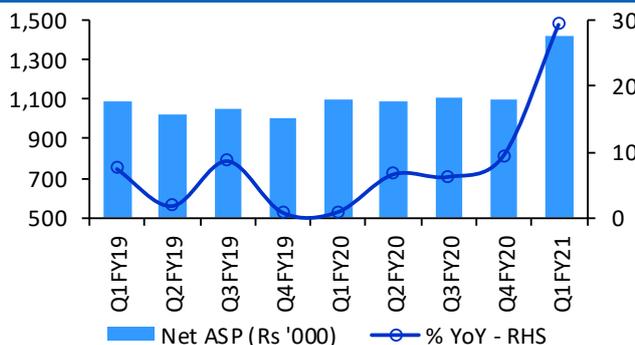
Source: DART, Company

Exhibit 4: Volume declined sharply



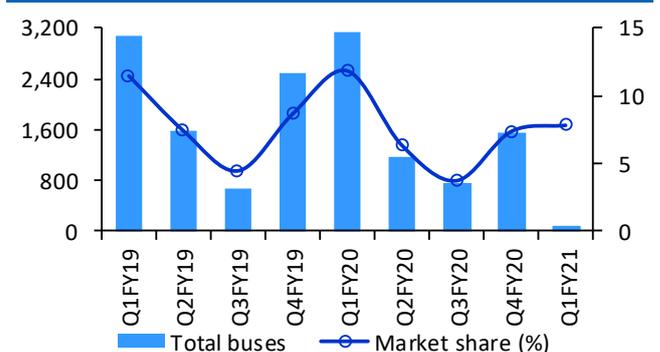
Source: DART, Company

Exhibit 5: Net ASP improved due to spare parts rev



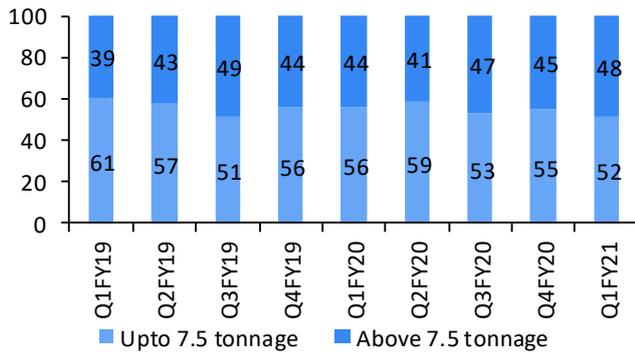
Source: DART, Company

Exhibit 6: Bus segment market share (%)



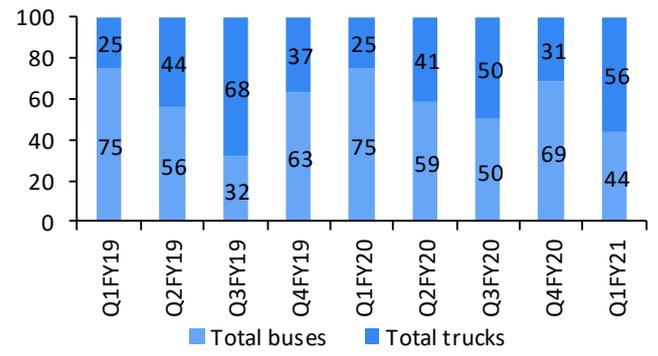
Source: DART, Company

Exhibit 7: Product mix by tonnage (%)



Source: DART, Company

Exhibit 8: Product mix by segment (%)



Source: DART, Company

Profit and Loss Account

| (Rs Mn) | FY20A | FY21E | FY22E | FY23E |
|--|---------------|----------------|--------------|---------------|
| Revenue | 11,542 | 4,946 | 7,986 | 11,829 |
| Total Expense | 11,423 | 5,503 | 7,851 | 10,995 |
| COGS | 9,042 | 3,759 | 5,910 | 8,754 |
| Employees Cost | 1,552 | 1,164 | 1,233 | 1,357 |
| Other expenses | 829 | 580 | 708 | 885 |
| EBIDTA | 119 | (557) | 135 | 834 |
| Depreciation | 407 | 425 | 441 | 477 |
| EBIT | (288) | (982) | (306) | 357 |
| Interest | 146 | 115 | 89 | 81 |
| Other Income | 51 | 67 | 74 | 81 |
| Exc. / E.O. items | 0 | 0 | 0 | 0 |
| EBT | (383) | (1,029) | (321) | 357 |
| Tax | (173) | (257) | (80) | 64 |
| RPAT | (211) | (772) | (241) | 293 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Profit/Loss share of associates | 0 | 0 | 0 | 0 |
| APAT | (211) | (772) | (241) | 293 |

Balance Sheet

| (Rs Mn) | FY20A | FY21E | FY22E | FY23E |
|-------------------------------|--------------|--------------|--------------|--------------|
| Sources of Funds | | | | |
| Equity Capital | 145 | 145 | 145 | 145 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Reserves & Surplus | 3,704 | 2,932 | 2,674 | 2,933 |
| Net Worth | 3,849 | 3,077 | 2,819 | 3,078 |
| Total Debt | 1,362 | 1,432 | 1,232 | 1,082 |
| Net Deferred Tax Liability | (152) | (300) | (200) | 20 |
| Total Capital Employed | 5,059 | 4,209 | 3,851 | 4,180 |

Applications of Funds

| | | | | |
|---|------------------|--------------|--------------|--------------|
| Net Block | 4,262 | 4,087 | 3,946 | 3,970 |
| CWIP | 32 | 100 | 150 | 100 |
| Investments | 0 | 0 | 0 | 0 |
| Current Assets, Loans & Advances | 4,141 | 3,028 | 3,867 | 5,169 |
| Inventories | 2,689 | 1,237 | 2,218 | 2,957 |
| Receivables | 395 | 343 | 555 | 986 |
| Cash and Bank Balances | 363 | 728 | 349 | 457 |
| Loans and Advances | 694 | 719 | 744 | 769 |
| Other Current Assets | 0 | 0 | 0 | 0 |
| Less: Current Liabilities & Provisions | 3,376 | 3,006 | 4,112 | 5,059 |
| Payables | 1,075 | 412 | 1,220 | 1,807 |
| Other Current Liabilities | 2,300 | 2,593 | 2,891 | 3,251 |
| | <i>sub total</i> | | | |
| Net Current Assets | 766 | 22 | (245) | 111 |
| Total Assets | 5,059 | 4,209 | 3,851 | 4,180 |

E – Estimates

Important Ratios

| Particulars | FY20A | FY21E | FY22E | FY23E |
|---|---------|---------|---------|---------|
| (A) Margins (%) | | | | |
| Gross Profit Margin | 21.7 | 24.0 | 26.0 | 26.0 |
| EBIDTA Margin | 1.0 | (11.3) | 1.7 | 7.0 |
| EBIT Margin | (2.5) | (19.8) | (3.8) | 3.0 |
| Tax rate | 45.0 | 25.0 | 25.0 | 18.0 |
| Net Profit Margin | (1.8) | (15.6) | (3.0) | 2.5 |
| (B) As Percentage of Net Sales (%) | | | | |
| COGS | 78.3 | 76.0 | 74.0 | 74.0 |
| Employee | 13.4 | 23.5 | 15.4 | 11.5 |
| Other | 7.2 | 11.7 | 8.9 | 7.5 |
| (C) Measure of Financial Status | | | | |
| Gross Debt / Equity | 0.4 | 0.5 | 0.4 | 0.4 |
| Interest Coverage | (2.0) | (8.6) | (3.4) | 4.4 |
| Inventory days | 85 | 91 | 101 | 91 |
| Debtors days | 12 | 25 | 25 | 30 |
| Average Cost of Debt | 8.3 | 8.2 | 6.7 | 7.0 |
| Payable days | 34 | 30 | 56 | 56 |
| Working Capital days | 24 | 2 | (11) | 3 |
| FA T/O | 2.7 | 1.2 | 2.0 | 3.0 |
| (D) Measures of Investment | | | | |
| AEPS (Rs) | (14.5) | (53.3) | (16.6) | 20.2 |
| CEPS (Rs) | 13.6 | (24.0) | 13.8 | 53.1 |
| DPS (Rs) | 0.0 | 0.0 | 1.0 | 2.0 |
| Dividend Payout (%) | 0.0 | 0.0 | (6.0) | 9.9 |
| BVPS (Rs) | 265.8 | 212.5 | 194.7 | 212.6 |
| RoANW (%) | (5.3) | (22.3) | (8.2) | 9.9 |
| RoACE (%) | (1.1) | (14.2) | (3.8) | 9.3 |
| RoAIC (%) | (5.4) | (24.0) | (8.8) | 9.9 |
| (E) Valuation Ratios | | | | |
| CMP (Rs) | 414 | 414 | 414 | 414 |
| P/E | (28.4) | (7.8) | (24.9) | 20.5 |
| Mcap (Rs Mn) | 5,990 | 5,990 | 5,990 | 5,990 |
| MCap/ Sales | 0.5 | 1.2 | 0.8 | 0.5 |
| EV | 6,989 | 6,694 | 6,873 | 6,616 |
| EV/Sales | 0.6 | 1.4 | 0.9 | 0.6 |
| EV/EBITDA | 58.8 | (12.0) | 50.9 | 7.9 |
| P/BV | 1.6 | 1.9 | 2.1 | 1.9 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.2 | 0.5 |
| (F) Growth Rate (%) | | | | |
| Revenue | (18.1) | (57.1) | 61.5 | 48.1 |
| EBITDA | (84.0) | (568.3) | (124.2) | 517.9 |
| EBIT | (180.2) | 240.5 | (68.9) | (216.9) |
| PBT | (257.5) | 168.7 | (68.8) | (211.2) |
| APAT | (207.6) | 266.6 | (68.8) | (221.6) |
| EPS | (207.6) | 266.6 | (68.8) | (221.6) |

Cash Flow

| (Rs Mn) | FY20A | FY21E | FY22E | FY23E |
|--------------|-------|-------|-------|-------|
| CFO | 1,696 | 728 | 277 | 822 |
| CFI | (630) | (319) | (350) | (450) |
| CFE | (927) | (44) | (306) | (265) |
| FCFF | 1,066 | 409 | (73) | 372 |
| Opening Cash | 302 | 363 | 728 | 349 |
| Closing Cash | 363 | 728 | 349 | 457 |

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.) |
|--------|--------|----------|-------------|
| Nov-19 | Sell | 480 | 527 |
| Feb-20 | Sell | 488 | 579 |
| Mar-20 | Reduce | 295 | 310 |
| Mar-20 | Reduce | 295 | 292 |
| Apr-20 | Sell | 254 | 316 |
| Jul-20 | Sell | 316 | 387 |

*Price as on recommendation date

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