

## Maintain cautious stance on stretched valuations...

Maruti Suzuki (MSIL) posted a steady performance in Q3FY21. Total operating income for the quarter was at ₹ 23,458 crore, up 13.3% YoY amid flattish ASPs QoQ at ₹ 4.48 lakh/unit, 13.4% YoY growth in overall volume to 4.96 lakh units. EBITDA in Q3FY21 was at ₹ 2,226 crore with corresponding margins at 9.5%. Margins fell 80 bps QoQ on account of 250 bps gross margin deterioration while the company realised savings in other expenses (% of sales). Consequent PAT was at ₹ 1,941 crore, up 24% YoY, supported by higher other income and lower effective tax rate (20.8%).

## Cost pressures set to stay, hefty margin expansion unlikely

MSIL's EBITDA margin profile has deteriorated sharply from ~13-15% trajectory clocked over FY15-18 to single digit levels over the past two years (FY20-21E, highest margins clocked in the past eight quarters at 10.5%) - driven by broad based increase under all cost heads. During Q3FY21, input costs rose 300 bps sequentially, reflecting lagged pass through of increase in raw material costs in the previous quarter. Further pressures are expected to impact coming quarters on the back of increase in prices of metals (including steel) and precious metals. Despite substantial savings realised in operating costs sequentially (particularly in other expenses), gross margins contracted 250 bps QoQ - demonstrating the challenge ahead. With strong volume offtake largely baking in the benefits of operating leverage, levers for margin expansion from present levels appear limited. The company would be focusing on calibrating costs given the severity of margin headwinds. We build 10% margins for MSIL by FY23E.

## Mix evolution within overall volume picture key monitorable

On the volume front, however, MSIL continues to perform well and lead the PV industry. Post Covid recovery in discretionary segments (PV in particular) remains strong - with pent up demand and move towards personal mobility later on supported by a healthy festive period. MSIL commentary is encouraging, with post festive demand staying intact. Near to medium term prospects are sound, as indicated by significant order book (~2.15 lakh units) and low system inventory (~22,000 units as of Q3FY21). Within served categories, however, product mix deterioration and ongoing loss in UV market share are overhangs that needs to be monitored given its impact on blended profitability. In our estimates we build 15% volume CAGR over FY21E-23E (in part due to low base effect).

## Valuation & Outlook

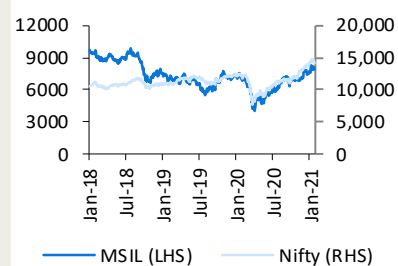
For MSIL we build sales, PAT CAGR of 16.3% & 27.1% respectively in FY21E-23E. In our view, lack of sufficient margin expansion triggers puts already stretched valuations under further strain (trades at ~33x FY23E EPS). We also await decisive commentary from MSIL on the EV front. We maintain our cautious stance on MSIL and value it at ₹ 7,000 i.e., 30x P/E on FY23E EPS (earlier target price ₹ 6,450). We assign REDUCE (SELL earlier) rating on the stock.



### Particulars

Particular	₹ crore
Market Capitalization	2,29,581
Total Debt (FY20)	106
Cash & Investment (FY20)	35,830
EV	1,93,857
52 week H/L (₹)	8400 / 4002
Equity capital	₹ 151 Crore
Face value	₹ 5

### Price chart



### Key Highlights

- Revenues rose 13.3% YoY in Q3FY21 tracking 13.4% volume growth & flat ASPs. Margins down 80 bps QoQ to 9.5% amid 250 bps gross margin deterioration
- Substantial margin expansion unlikely given raw material pressures and limited scope of operating leverage benefits from present levels.

### Key risk to our call

- More than anticipated recovery in sales volume over FY22E, FY23E
- Innovative product launch in the utility vehicle (UV) category, arresting market share declines

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### Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Net Sales	86,020.3	75,610.6	67,886.0	83,194.7	91,836.9	16.3%
EBITDA	10,999.3	7,302.6	5,159.7	7,865.6	9,163.4	33.3%
EBITDA Margins (%)	12.8	9.7	7.6	9.5	10.0	
Net Profit	7,500.6	5,650.6	4,365.2	6,006.6	7,051.4	27.1%
EPS (₹)	248.3	187.1	144.5	198.8	233.4	
P/E	30.6	40.6	52.6	38.2	32.6	
RoNW (%)	16.3	11.7	8.5	10.9	11.8	
RoIC (%)	59.9	24.4	13.1	28.1	35.5	

Source: ICICI Direct Research, Company

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (Chg %)	Q2FY21	QoQ (Chg %)	Comments
Total Operating Income	23,458	22,981	20,707	13.3	18,745	25.1	Topline came in marginally ahead of estimates tracking better than anticipated ASP's
Raw Material Expenses	17,016	16,791	15,013	13.3	13,114	29.7	RM costs increased by ~250 bps QoQ vs. our expectations of ~300 bps increase
Employee Expenses	946	871	867	9.1	827	14.4	Employee costs came in higher at 4% of sales
Other expenses	3,271	3,180	2,725	20.0	2,870	14.0	
Operating Profit (EBITDA)	2,226	2,139	2,102	5.9	1,934	15.1	EBITDA margins came in broadly inline with our estimates. Increase in raw material costs was partially mitigated by controlled in A&P spend
EBITDA Margin (%)	9.5	9.3	10.2	-66 bps	10.3	-83 bps	
Other Income	994	664	784	26.7	603	64.9	Other income came in substantially higher tracking gains on investment surplus cash on MSIL's books
Depreciation	741	773	858	-13.6	766	-3.2	
Interest	29	27	22	32.3	22	28.1	
Total Tax	508.4	450.8	441.6	15.1	376.2	35.1	Tax rate for the quarter came in lower at 20.8%
PAT	1,941	1,553	1,565	24.1	1,372	41.5	PAT came in higher than estimates tracking higher other income and lower effective tax rate
EPS	64.3	51.4	51.8	24.1	45.4	41.5	
<b>Key Metrics</b>							
ASP (₹)	4,48,414	4,39,270	4,49,265	-0.2	4,49,961	-0.3	ASP's came in flat QoQ and YoY vs. our estimates of a marginal decline due to adverse product mix
Discounts (₹)	20,185	15,000	33,000	-38.8	17,300	16.7	Discounts came in higher than estimates

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Total Operating Income	62,393	67,886	8.8	72,577	83,195	14.6	81,592	91,837	12.6	Sensing the robust demand prospects we have upgraded our volume estimates leading to upward revision in sales estimates over FY21-23E. We now expect sales at MSIL to grow at a CAGR of 16.3% over FY21-23E
EBITDA	5,051	5,160	2.1	7,622	7,866	3.2	9,128.3	9,163	0.4	
EBITDA Margin (%)	8.1	7.6	-50 bps	10.5	9.5	-105 bps	11.2	10.0	-121 bps	Persistent challenge to product mix amid increase in raw material costs leads to downward revision in margin estimates over FY21-23E
PAT	3,989	4,365	9.4	5,794	6,007	3.7	6,966.1	7,051	1.2	
EPS (₹)	132	145	9.4	192	199	3.7	230.6	233	1.2	Topline upgrade and decline in margin estimates leads to almost same EPS estimates over FY21-23E. We expect PAT at MSIL to grow at a CAGR of 27% over FY21-23E

Source: ICICI Direct Research

Exhibit 3: Assumptions

	Current						Earlier			Comments
	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
Total Volumes (lakh units)	17.8	18.6	15.6	14.0	16.8	18.5	13.3	15.9	17.5	With 9MFY21 volumes already in excess of 9.5 lakh units and affirmative pending order log amounting ~2 lakh units, we build in 14 lakh units as total sales volume for FY21E. Post which in FY22E/FY23E we have built in 20% & 10% volume growth respectively
Average ASPs (₹ lakh/unit)	4.39	4.46	4.59	4.57	4.67	4.68	4.43	4.30	4.39	
RMC/Unit (₹ lakh/unit)	3.09	3.24	3.45	3.48	3.58	3.62	3.31	3.22	3.30	
Discount (₹/unit)	15,895	18,334	23,688	19,371	15,000	15,000	18,075	15,000	15,000	

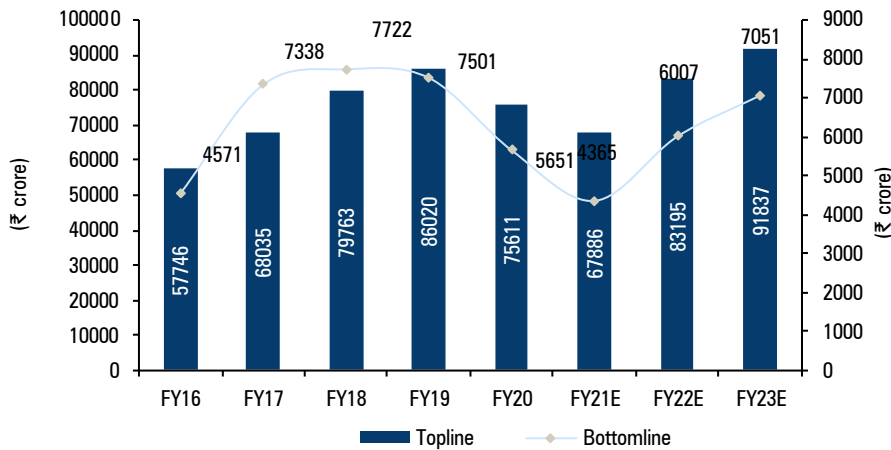
Source: ICICI Direct Research

## Conference call highlights

- On a longer term basis, the domestic PV industry witnessed a sharp slowdown from ~10.3% CAGR over FY00-10 to ~3.6% CAGR over FY10-20 and ~1.3% CAGR over FY15-20
- Post festive demand has been better than anticipated. Present order backlog is at ~2.15 lakh units. MSIL exited Q3FY21 with total inventory (factory + channel) at ~22,000 units
- Rural demand remains strong, with penetration at >40% in Q3FY21
- Annualised production run rate for SMG was at ~5 lakh units i.e. running close to full capacity
- Replacement demand is down from ~26% of overall mix last year to ~19% this year. Customers are holding onto vehicles bit more post Covid, with average age of True Value (pre-owned car) supply up by ~1.2 years
- Share of first time buyers in overall mix is at ~48-49% vs. ~43-44% earlier
- MSIL is evaluating the feasibility of launching Jimny in India
- Thus far, shortage of semiconductors has not impacted MSIL but it views it as a clear supply risk
- **Commodity cost movements impact financials with a quarterly lag. In Q3FY21, they rose 300 bps sequentially and were not offset by any price increases. MSIL expects more input cost pressures in Q4FY21 due to rise in prices of steel, precious metals**
- **The company has been unable to pass on cost increases due to uncertain demand scenario. As a result, it has stepped up cost reduction efforts instead across areas**
- Royalty rate for the quarter was at 4.9% (down 10 bps QoQ). **MSIL said that 90-95% of its models would migrate to rupee-based royalty formula by FY24**
- **Discounts per unit during Q3FY21 were at ₹ 21,185**
- Export sales for the quarter amounted to ₹ 1,318 crore
- **MSIL views high battery costs, lack of charging infrastructure and range anxiety among potential buyers as impediments to fully electric offtake in India. It believes hybrids and alternate fuels would play an important role in the meantime**

## Financial story in charts

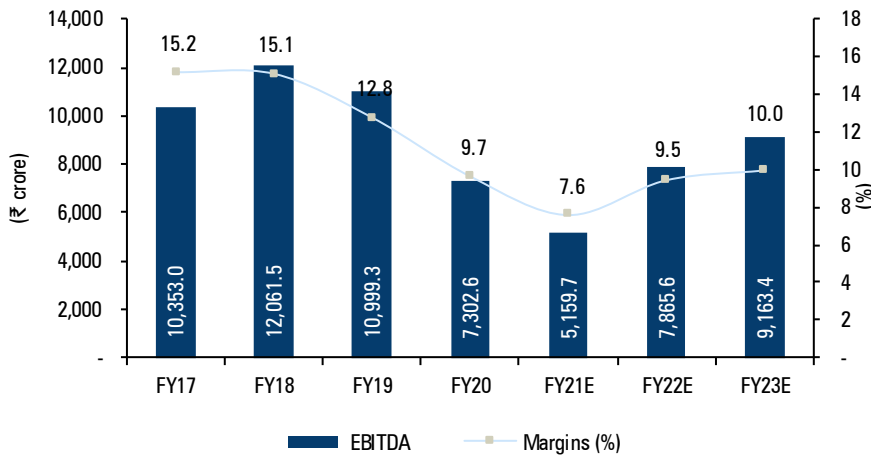
Exhibit 4: Topline and bottomline trend



Source: Company, ICICI Direct Research

We expect total operating income to grow at 16.3% CAGR over FY21E-23E while PAT is seen growing at 27.1% CAGR during the time

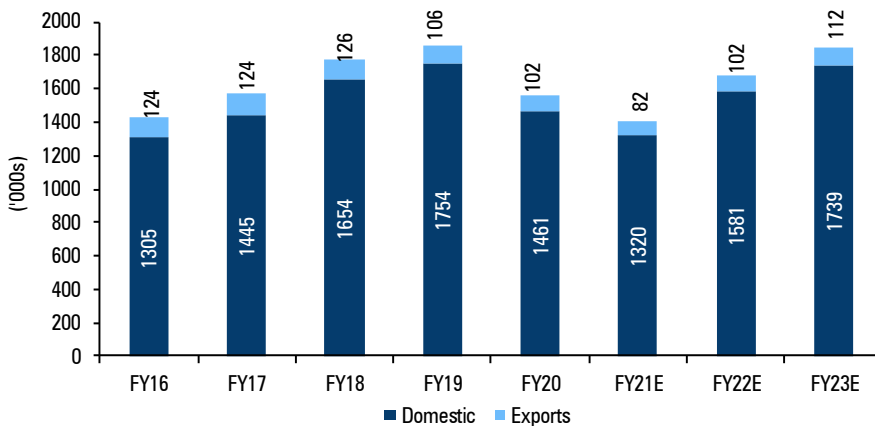
Exhibit 5: EBITDA trend and margin profile



Source: Company, ICICI Direct Research

EBITDA margins are seen rising to 10% levels by FY23E

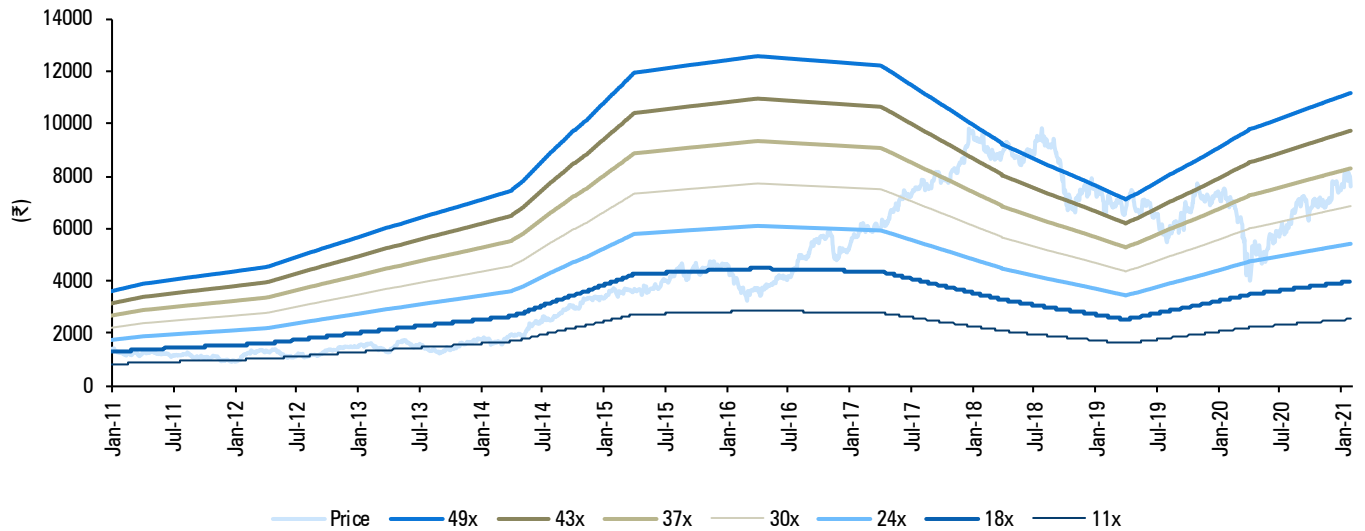
Exhibit 6: Domestic vs. exports volume trend



Source: Company, ICICI Direct Research

We expect ~15% volume CAGR over FY21E-23E

Exhibit 7: MSIL currently trades at ~33x FY23E EPS



Source: Bloomberg, ICICI Direct Research

Exhibit 8: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	86,020	7.8	248	(2.9)	30.6	17.6	16.3	16.3
FY20	75,611	(12.1)	187	(24.7)	40.6	26.5	11.7	7.4
FY21E	67,886	(10.2)	145	(22.7)	52.6	37.1	8.5	3.9
FY22E	83,195	22.6	199	37.6	38.2	23.8	10.9	7.8
FY23E	91,837	10.4	233	17.4	32.6	19.8	11.8	9.1

Source: Bloomberg, ICICI Direct Research

Exhibit 9: Shareholding pattern

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	56.2	56.3	56.3	56.4	56.4
FII	23.2	21.6	21.5	21.9	23.1
DII	15.6	16.7	17.1	16.8	15.7
Others	5.0	5.4	5.2	5.0	4.9

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>75,611</b>	<b>67,886</b>	<b>83,195</b>	<b>91,837</b>
Growth (%)	-12.1	-10.2	22.6	10.4
Raw Material Expenses	53,995	48,792	60,185	66,949
Employee Expenses	3,384	3,423	3,737	4,029
Other expenses	10,929	10,511	11,407	11,696
Total Operating Expenditure	68,308	62,726	75,329	82,673
<b>EBITDA</b>	<b>7302.6</b>	<b>5159.7</b>	<b>7865.6</b>	<b>9163.4</b>
Growth (%)	-34	-29	52	16
EBITDA margins (%)	9.7	7.6	9.5	10.0
Depreciation	3,526	3,055	3,328	3,444
Interest	133	93	84	75
Other Income	3,421	3,520	3,296	3,454
PBT	7,065	5,531	7,750	9,099
Total Tax	1,414	1,166	1,744	2,047
Tax Rate (%)	20.0	21.1	22.5	22.5
<b>PAT</b>	<b>5650.6</b>	<b>4365.2</b>	<b>6006.6</b>	<b>7051.4</b>
Growth (%)	-24.7	-22.7	37.6	17.4
<b>EPS (₹)</b>	<b>187.1</b>	<b>144.5</b>	<b>198.8</b>	<b>233.4</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Profit after Tax</b>	<b>5,651</b>	<b>4,365</b>	<b>6,007</b>	<b>7,051</b>
Add: Depreciation	3,526	3,055	3,328	3,444
Sub: Other Income	3,421	3,520	3,296	3,454
(Inc)/dec in Current Assets	-50	509	-1,506	-850
Inc/(dec) in CL and Provisions	-2,812	-1,382	2,211	1,248
Others	133	93	84	75
<b>CF from operating activities</b>	<b>3025.9</b>	<b>3120.5</b>	<b>6827.2</b>	<b>7514.5</b>
(Inc)/dec in Investments	-328	-2,350	-4,560	-5,130
(Inc)/dec in Fixed Assets	-3,637	-2,500	-3,000	-3,000
Others	891	-310	-310	-310
Add: Other income	3,421	3,520	3,296	3,454
<b>CF from investing activities</b>	<b>347.5</b>	<b>-1640.4</b>	<b>-4573.7</b>	<b>-4985.6</b>
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	-93	-84	-75
<b>CF from financing activities</b>	<b>-3531.3</b>	<b>-1462.4</b>	<b>-2218.3</b>	<b>-2512.0</b>
Net Cash flow	-158	18	35	17
Opening Cash	179	21	39	74
<b>Closing Cash</b>	<b>21.1</b>	<b>38.8</b>	<b>74.0</b>	<b>90.8</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	151	151	151	151
Reserve and Surplus	48,286	51,292	55,184	59,819
<b>Total Shareholders funds</b>	<b>48437.0</b>	<b>51442.8</b>	<b>55334.9</b>	<b>59969.7</b>
Total Debt	106	96	76	56
Deferred Tax Liability	598	598	598	598
Others Liabilities	2,222	2,262	2,302	2,342
<b>Total Liabilities</b>	<b>51363.6</b>	<b>54399.4</b>	<b>58311.5</b>	<b>62966.3</b>
<b>Assets</b>				
Gross Block	30,391	33,228	36,478	39,728
Less: Acc Depreciation	14,610	17,664	20,992	24,436
<b>Net Block</b>	<b>15781.2</b>	<b>15563.7</b>	<b>15485.9</b>	<b>15292.1</b>
Capital WIP	1,337	1,000	750	500
Total Fixed Assets	17,119	16,564	16,236	15,792
<b>Investments</b>	<b>36467.6</b>	<b>39067.6</b>	<b>43877.6</b>	<b>49257.6</b>
Inventory	3,215	2,790	3,419	3,774
Debtors	2,127	2,232	2,735	3,019
Loans and Advances	17	15	19	21
Other Current Assets	1,829	1,642	2,012	2,221
<b>Cash</b>	<b>21.1</b>	<b>38.8</b>	<b>74.0</b>	<b>90.8</b>
Total Current Assets	7,209	6,718	8,259	9,126
Creditors	7,494	6,510	7,978	8,806
Provisions	680	590	723	799
Other current Liabilities	3,015	2,707	3,317	3,662
Total Current Liabilities	11,189	9,807	12,018	13,267
<b>Net Current Assets</b>	<b>-3979.9</b>	<b>-3089.2</b>	<b>-3759.4</b>	<b>-4140.7</b>
Other Assets	1,757	1,857	1,957	2,057
<b>Application of Funds</b>	<b>51363.6</b>	<b>54399.4</b>	<b>58311.5</b>	<b>62966.3</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	187.1	144.5	198.8	233.4
Cash EPS	303.8	245.6	309.0	347.4
BV	1,603.4	1,703.0	1,831.8	1,985.2
DPS	60.0	45.0	70.0	80.0
Cash Per Share	1,186.1	1,264.5	1,416.6	1,587.0
<b>Operating Ratios</b>				
EBITDA Margin (%)	9.7	7.6	9.5	10.0
PBIT / Net sales (%)	5.0	3.1	5.5	6.2
PAT Margin (%)	7.5	6.4	7.2	7.7
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
<b>Return Ratios (%)</b>				
RoE	11.7	8.5	10.9	11.8
RoCE	7.4	3.9	7.8	9.1
RoIC	24.4	13.1	28.1	35.5
<b>Valuation Ratios (x)</b>				
P/E	40.6	52.6	38.2	32.6
EV / EBITDA	26.5	37.1	23.8	19.8
EV / Net Sales	2.6	2.8	2.2	2.0
Market Cap / Sales	3.0	3.4	2.8	2.5
Price to Book Value	4.7	4.5	4.1	3.8
<b>Solvency Ratios</b>				
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
<b>Quick Ratio</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP			M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
	(₹)	(₹)	Rating		(₹ Cr)	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E
Apollo Tyre (APOTYR)	202	200	Hold	11,555	8.3	5.8	11.6	14.6	24.3	35.0	17.4	13.8	9.2	7.3	6.4	5.2	4.5	5.0	7.0	8.4	4.8	3.3	6.3	7.5
Ashok Leyland (ASHLEY)	113	120	Buy	33,076	0.8	-0.6	2.4	4.7	138.5	-178.0	46.3	24.2	29.9	52.3	18.8	12.6	4.5	0.0	9.5	15.8	4.7	-2.6	9.5	16.2
Bajaj Auto (BAAUTO)	4,132	4,500	Buy	1,19,568	176.2	154.1	184.5	219.6	23.4	26.8	22.4	18.8	20.1	21.0	16.8	13.4	23.9	25.3	26.6	27.5	25.6	19.7	20.6	21.3
Balkrishna Ind. (BALIND)	1,665	1,770	Hold	32,187	48.9	48.1	58.6	68.0	34.1	34.6	28.4	24.5	26.1	20.7	17.1	14.9	14.4	17.6	19.7	20.4	18.8	16.7	18.2	18.8
Bharat Forge (BHAFOR)	582	510	Hold	27,096	7.5	0.3	9.4	17.0	77.6	NM	61.6	34.3	26.7	48.0	23.8	17.0	5.6	0.3	6.0	9.9	7.8	0.8	8.8	14.0
Eicher Motors (EICMOT)	2,800	2,650	Hold	76,328	67.0	46.6	70.2	90.2	41.8	60.1	39.9	31.1	32.0	39.4	28.1	21.8	17.3	11.8	15.2	16.9	18.3	11.6	15.3	17.1
Escorts (ESCORT)	1,225	1,500	Hold	15,016	39.6	59.5	71.0	80.9	30.9	20.6	17.3	15.1	20.8	13.4	11.3	9.5	16.2	15.3	15.3	14.9	14.2	14.0	14.5	14.3
Exide Industries (EXIIND)	198	200	Hold	16,830	9.7	7.3	9.2	9.9	14.6	19.9	15.8	14.6	12.2	13.5	11.1	10.1	15.7	11.8	13.7	13.6	13.4	9.2	10.8	10.8
Hero Moto (HERHON)	3,400	3,480	Hold	67,898	181.9	123.6	161.8	183.1	18.7	27.5	21.0	18.6	15.5	17.8	13.4	11.6	21.3	16.6	20.6	21.3	22.7	16.0	19.0	19.4
M&M (MAHMAH)	765	870	Buy	95,105	11.2	22.8	40.1	46.4	68.6	33.5	19.1	16.5	15.8	15.4	12.3	10.4	8.8	8.4	10.5	11.5	6.4	9.5	11.9	12.5
<b>Maruti Suzuki (MARUTI)</b>	<b>7,600</b>	<b>7,000</b>	<b>Reduce</b>	<b>2,29,581</b>	<b>187.1</b>	<b>144.5</b>	<b>198.8</b>	<b>233.4</b>	<b>40.6</b>	<b>52.6</b>	<b>38.2</b>	<b>32.6</b>	<b>26.5</b>	<b>37.1</b>	<b>23.8</b>	<b>19.8</b>	<b>7.4</b>	<b>3.9</b>	<b>7.8</b>	<b>9.1</b>	<b>11.7</b>	<b>8.5</b>	<b>10.9</b>	<b>11.8</b>
Minda Industries (MININD)	475	440	Buy	12,916	5.9	6.7	10.8	14.7	80.4	71.0	43.9	32.2	22.4	22.2	16.2	13.3	9.1	7.9	12.3	15.2	10.3	9.4	14.2	16.3
Motherson (MOTSUM)	150	165	Hold	47,369	3.7	0.3	5.1	6.3	40.5	NM	29.5	23.7	10.4	14.4	7.8	6.5	9.0	2.8	13.1	16.0	10.4	0.9	13.2	14.9
Tata Motors (TATMOT)	267	210	Buy	96,059	-33.3	-16.6	6.1	17.3	NM	NM	43.7	15.4	7.1	6.5	4.8	3.8	1.3	2.8	6.4	9.4	-18.7	-10.6	3.7	9.6

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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