

## Retail Equity Research

# Maruti Suzuki India Limited

Automobile

BSE CODE: 532500

NSE CODE: MARUTI

Bloomberg CODE: MSIL:IN

SENSEX: 36,940

**HOLD**

12M Investment period

Rating as per Large Cap

CMP Rs. 6,166

TARGET Rs. 6,748

RETURN 9% ↑

(Closing: 03-08-20)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↓

## Maruti screeches to a halt amid lockdown

Maruti Suzuki India Limited (MSIL) is an automobile manufacturer with a 56.2% ownership in Japanese car and motorcycle manufacturer Suzuki Motor Corporation. It is one of the largest passenger car companies and accounts for over 50% of the domestic car market.

- With necessary restrictions and safety measures in place, production in the whole quarter was equivalent to just about 2 weeks of normal level.
- Maruti witnessed an 80.4% YoY erosion of its topline as the economy came to a near-standstill; EBIT margin decline as costs outgrew sales.
- Company reports first ever quarterly loss in its history, since its listing back in 2003. PAT loss stood at 249cr vs 1,436cr profit in Q1FY20.
- Demand trend is expected to be higher for pre-owned cars, followed by first-time buyers, with replacement buying estimated to come down in the coming quarters.
- We are cautious on Maruti's near-term outlook and downgrade our rating to HOLD with a revised TP of Rs. 6,748 based on 28x FY22E EPS.

## Drastic decline in sales due to disruption amidst pandemic

Maruti was hit hard during the quarter, as the factories remained close translating to a complete production halt and an unprecedented drop in sales even as the country remained largely closed owing to stringent lockdowns. Both production and sales saw a gradual resumption by May-end with necessary precautionary measures in place. As a result, Q1FY21 net sales came in at Rs. 3,678cr (vs. Rs. 18,735cr in Q1FY20). Overall, the company managed to sell a total of 76,599 vehicles during the quarter, with domestic market contributing about 85.5% of this. Average discounts across vehicles were roughly Rs. 25,000 for wholesale, and Rs. 20,000 for retail. Company had inventory levels of 25 days (~80k units) on the back of ~250k units at industry level.

## Bottom-line slips in negative territory

Even as sharp decline was witnessed in the inventory levels, company's fixed costs outgrew its sales, while raw material per vehicle costs shot up significantly to Rs. 380k vs Rs. 330k in the previous quarter. Resultantly, company reported a net loss of Rs. 249cr (vs. a profit of Rs. 1,436cr in Q1FY20) which was partially offset by lower operating expenses and higher fair value gain on the invested surplus.

## Key concall highlights

- Consumer inquires for compact vehicles improved to ~65% (as against ~55%-56% previously). Overall customer demand stood at 85-90% of pre-COVID levels.
- Sales in Kerala, Maharashtra and Tamil Nadu were worst hit due to lockdown.
- Company is looking to lower its fixed costs in all the verticals and lower its material costs by localizing the imported components.
- Currently the company is producing 4,000+ units per day with ramp-up expected from mid-August to September with opening of second shift in Gujarat plant.

## Valuation

Given the gradual opening up of the economy, recovery is expected in the quarters ahead. Additionally, company's recent tie-up with Toyota may provide a much needed boost to sales outside India thereby helping its overall exports as countries come out of lockdown. The company has put in cost control measures such as lowering its discretionary spends, so as to improve its margins in these testing times. We have a cautious outlook at this juncture and downgrade our rating to HOLD on the stock with a revised target price of Rs. 6,748 based on 28x FY22E EPS.

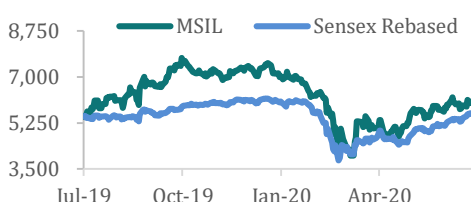
## Company Data

Market Cap (cr)	Rs. 189,116
Enterprise Value (cr)	Rs. 188,060
Outstanding Shares (cr)	30.2
Free Float	44.0%
Dividend Yield	1.0%
52 week high	Rs. 7,755
52 week low	Rs. 4,002
6m average volume (lacs)	0.6
Beta	1.2
Face value	Rs. 5

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	56.2	56.3	56.3
FII's	23.2	21.6	21.5
MFs/Insti	15.6	16.7	17.1
Public	3.3	3.5	3.5
Others	1.7	1.9	1.7
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	16.8%	-9.4%	14.4%
Absolute Sensex	11.5%	-7.7%	0.3%
Relative Return*	5.3%	-1.8%	14.1%

\*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	71,690	67,747	81,297
Growth (%)	(13.7)	(5.5)	20.0
EBITDA	7,303	5,834	9,206
EBITDA Margin (%)	10.2	8.6	11.3
Adj. PAT	5,651	4,421	7,280
Growth (%)	(24.7)	(21.8)	64.7
Adj. EPS	187.1	146.4	241.0
Growth (%)	(24.7)	(21.8)	64.7
P/E	22.9	42.8	26.0
P/B	2.7	3.7	3.4
EV/EBITDA	17.7	32.2	20.2
ROE (%)	11.7	8.6	13.0
D/E	0.0	0.0	0.0

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	3,678	18,735	(80.4)	17,186	(78.6)
<b>EBITDA</b>	<b>(863)</b>	<b>2,048</b>	n.m.	<b>1,546</b>	n.m.
EBITDA margins	(23.5)	10.9	n.m.	9.0	n.m.
Depreciation	783	919	(14.7)	823	(4.8)
<b>EBIT</b>	<b>(1,647)</b>	<b>1,129</b>	n.m.	<b>723</b>	n.m.
Interest	17	55	(68.4)	28	(38.9)
Other Income	1,318	836	57.6	880	49.7
Exceptional Items	-	-	-	-	-
<b>PBT</b>	<b>(346)</b>	<b>1,911</b>	n.m.	<b>1,576</b>	n.m.
Tax	(96)	475	n.m.	284	n.m.
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
<b>Reported PAT</b>	<b>(249)</b>	<b>1,436</b>	n.m.	<b>1,292</b>	n.m.
Adjustments	-	-	n.m.	-	n.m.
<b>Adj. PAT</b>	<b>(249)</b>	<b>1,436</b>	n.m.	<b>1,292</b>	n.m.
No. of shares	30.2	30.2	-	30.2	-
<b>Adj. EPS (Rs.)</b>	<b>(8.3)</b>	<b>47.5</b>	n.m.	<b>42.8</b>	n.m.

### Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	83,608	90,714	67,747	81,297	(19.0)	(10.4)
EBITDA	10,232	12,480	5,834	9,206	(43.0)	(26.2)
Margins (%)	12.2	13.8	8.6	11.3	(360bps)	(250bps)
Adj. PAT	7,860	9,703	4,421	7,280	(43.8)	(25.0s)
Adj. EPS	260.2	321.2	146.4	241.0	(43.8)	(25.0)



## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>78,105</b>	<b>83,027</b>	<b>71,690</b>	<b>67,747</b>	<b>81,297</b>
% change	16.7	6.3	(13.7)	(5.5)	20.0
<b>EBITDA</b>	<b>12,062</b>	<b>10,999</b>	<b>7,303</b>	<b>5,834</b>	<b>9,206</b>
% change	16.5	(8.8)	(33.6)	(20.1)	57.8
Depreciation	2,758	3,019	3,526	3,124	3,108
<b>EBIT</b>	<b>9,304</b>	<b>7,980</b>	<b>3,777</b>	<b>2,710</b>	<b>6,097</b>
Interest	346	76	133	80	84
Other Income	2,046	2,561	3,421	3,079	3,387
<b>PBT</b>	<b>11,003</b>	<b>10,466</b>	<b>7,065</b>	<b>5,709</b>	<b>9,400</b>
% change	10.7	(4.9)	(32.5)	(19.2)	64.7
Tax	3,282	2,965	1,414	1,288	2,120
Tax Rate (%)	29.8	28.3	20.0	22.6	22.6
<b>Reported PAT</b>	<b>7,722</b>	<b>7,501</b>	<b>5,651</b>	<b>4,421</b>	<b>7,280</b>
Adj*	-	-	-	-	-
<b>Adj PAT</b>	<b>7,722</b>	<b>7,501</b>	<b>5,651</b>	<b>4,421</b>	<b>7,280</b>
% change	5.2	(2.9)	(24.7)	(21.8)	64.7
No. of shares (cr)	30.2	30.2	30.2	30.2	30.2
<b>Adj EPS (Rs.)</b>	<b>255.6</b>	<b>248.3</b>	<b>187.1</b>	<b>146.4</b>	<b>241.0</b>
% change	5.2	(2.9)	(24.7)	(21.8)	64.7
DPS (Rs.)	80.0	80.0	60.0	50.8	83.7
CEPS (Rs.)	346.9	348.2	303.8	249.8	343.9

## CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Net inc. + Depn.</b>	<b>10,480</b>	<b>10,520</b>	<b>9,176</b>	<b>7,545</b>	<b>10,388</b>
Non-cash adj.	(662)	(2,049)	(3,916)	458	186
Changes in W.C	1,967	(1,877)	(1,856)	(120)	676
<b>C.F. Operation</b>	<b>11,785</b>	<b>6,593</b>	<b>3,405</b>	<b>7,884</b>	<b>11,251</b>
Capital exp.	(3,865)	(4,700)	(3,399)	(3,038)	(3,643)
Change in inv.	(4,505)	1,029	2,749	(1,593)	(2,043)
Other invest.CF	88	133	186	0	0
<b>C.F - Investment</b>	<b>(8,282)</b>	<b>(3,538)</b>	<b>(464)</b>	<b>(4,631)</b>	<b>(5,686)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	(373)	39	(43)	5	6
Dividends paid	(2,266)	(2,417)	(2,417)	(1,536)	(2,529)
Other finance.CF	(808)	(570)	(640)	(577)	(581)
<b>C.F - Finance</b>	<b>(3,446)</b>	<b>(2,948)</b>	<b>(3,100)</b>	<b>(2,107)</b>	<b>(3,104)</b>
Chg. in cash	57	107	(159)	1,146	2,461
Closing cash	71	179	21	1,167	3,628

## BALANCE SHEET

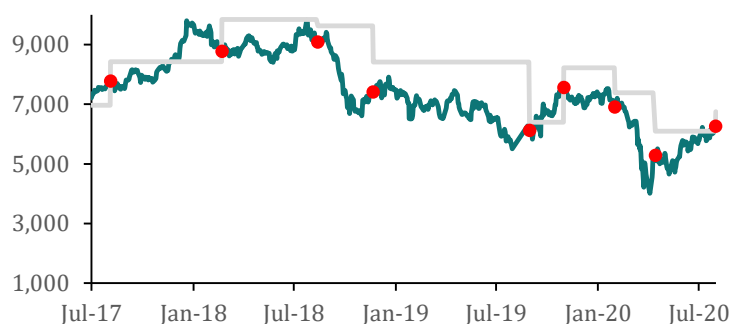
Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	71	179	21	1,167	3,628
Accounts Receivable	1,462	2,310	2,127	1,999	2,358
Inventories	3,161	3,326	3,215	2,927	3,521
Other Cur. Assets	3,228	6,547	3,064	3,218	3,528
Investments	34,073	31,470	35,249	36,659	38,492
Gross Fixed Assets	20,784	25,484	28,883	31,921	35,564
Net Fixed Assets	13,047	14,957	15,375	15,277	15,749
CWIP	2,126	1,600	1,337	1,329	1,370
Intangible Assets	312	451	407	427	448
Def. Tax (Net)	-	-	-	-	-
Other Assets	1,891	2,093	1,757	1,587	1,432
<b>Total Assets</b>	<b>59,370</b>	<b>62,932</b>	<b>62,552</b>	<b>64,589</b>	<b>70,524</b>
Current Liabilities	15,331	14,001	11,189	10,767	12,443
Provisions	27	40	52	57	57
Debt Funds	111	150	106	112	117
Other Liabilities	2,144	2,601	2,769	2,332	1,835
Equity Capital	151	151	151	151	151
Reserves & Surplus	41,606	45,991	48,286	51,171	55,922
Shareholder's Fund	41,757	46,142	48,437	51,322	56,073
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>59,370</b>	<b>62,932</b>	<b>62,552</b>	<b>64,589</b>	<b>70,524</b>
<b>BVPS (Rs.)</b>	<b>1,382</b>	<b>1,527</b>	<b>1,603</b>	<b>1,699</b>	<b>1,856</b>

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	15.4	13.2	10.2	8.6	11.3
EBIT margin (%)	11.9	9.6	5.3	4.0	7.5
Net profit mgn.(%)	9.9	9.0	7.9	6.5	9.0
ROE (%)	18.5	16.3	11.7	8.6	13.0
ROCE (%)	22.2	17.2	7.8	5.3	10.9
<b>W.C &amp; Liquidity</b>					
Receivables (days)	6.8	10.2	10.8	10.8	10.6
Inventory (days)	21.0	20.1	22.1	22.3	22.4
Payables (days)	69.7	58.4	51.5	52.9	54.8
Current ratio (x)	0.5	0.9	0.7	0.9	1.0
Quick ratio (x)	0.2	0.5	0.3	0.4	0.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	4.0	3.6	2.6	2.2	2.4
Total asset T.O (x)	1.4	1.4	1.1	1.1	1.2
Int. coverage ratio (x)	26.9	105.3	28.4	34.0	72.8
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	3.4	2.4	1.8	2.8	2.3
EV/EBITDA (x)	21.8	18.1	17.7	32.2	20.2
P/E (x)	34.1	26.6	22.9	42.8	26.0
P/BV (x)	6.3	4.3	2.7	3.7	3.4



## Recommendation Summary



Dates	Rating	Target
21-Feb-18	BUY	9,849
13-Aug-18	HOLD	9,633
21-Nov-18	BUY	8,419
30-Aug-19	HOLD	6,400
31-Oct-19	HOLD	8,218
31-Jan-20	HOLD	7,387
13-Apr-20	BUY	6,100
04-August-20	HOLD	6,748

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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