

Maruti Suzuki India Ltd.

Industry **Automobiles**
Bloomberg **MSIL IN**
BSE CODE **532500**

Festivals may see uptick in demand

RATING	BUY
CMP	5806
Price Target	7531
Potential Upside	30%

Rating Change	↔
Estimate Change	↓
Target Change	↔

Stock Info

52wk Range H/L	9,833/5,685
Mkt Capital (Rs Cr)	175374
Free float (%)	44%
Avg. Vol 1M (,000)	910
No. of Shares (Cr.)	30
Promoters Pledged %	0%

Research Analyst

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1QFY20 Result Update

- ❑ MARUTI posted a decline in revenue by 12% YoY to Rs.19719 crores (vs our expectation of Rs.19579 crores) which was largely driven by 18%YoY decline in volumes while realization improved by 7% YoY on account of better product mix and price hikes.
- ❑ Sales in the domestic market stood at 374481 units which was lower by 19.3% YoY. Exports were at 28113 units with 6% YoY growth.
- ❑ The sales in rural regions have declined by 17%YoY (contributes 39% of total volumes). A similar decline has also been seen in urban regions as well.
- ❑ Gross margin improved by 41 bps QoQ to 28.5% led by softening of commodity prices and favorable foreign exchange variation. However, EBITDA margin declined by 20 bps QoQ to 10.4% due to higher employee cost.
- ❑ PAT declined by 27.3%YoY to Rs. 1435 crores (vs our expectation of Rs.1430 crores). PAT margins declined by 109 bps QoQ to 7.3% on account of higher depreciation and tax expenses.

View and Valuation

The industry is going through tough phase and the decline is witnessed in both urban as well rural regions. The management says that there is no optimism across consumers as walk-ins has contracted sharply. However, the growth guidance for the industry remains negative 2-3% for FY20. We expect margins to remain soft in FY20 based on weaker demand scenario while FY21 may see sharp improvements led by volume growth and price hikes. The company is ready with EV models and currently testing the prototypes. We reduce the FY20 EPS estimate by 5%YoY due to weak volume growth and higher cost. We value the company at 27x FY21e EPS to arrive at a target price of Rs.7531 and maintain BUY.

Key Risks to our rating and target

- ❑ Continued slowdown in passenger vehicle industry
- ❑ Further depreciation in INR

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	68085	79809	86069	87468	92357
EBITDA	10358	12063	11003	10307	12093
EBIT	7754	9304	7982	6897	8700
PAT	7511	7881	7651	7078	8417
EPS (Rs)	249	261	253	234	279
EPS growth (%)	36.6	4.9	(2.9)	(7.5)	18.9
ROE (%)	20.3	18.5	16.2	13.7	14.8
ROCE (%)	20.9	21.9	16.9	13.3	15.3
BV	1227	1409	1559	1711	1884
P/B (X)	4.9	6.3	4.4	3.4	3.1
P/E (x)	24.2	34.0	27.3	24.8	20.8

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1QFY20 Results

PAT in line with estimates

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes	490.5	484.8	428.6	458.5	402.6	-18%	-12%	1780	1862	4.7%
Realization	457,907	462,685	458,850	468,056	489,809	7%	5%	448,475	462,125	3.0%
Net Sales	22,459	22,433	19,668	21,459	19,719	-12%	-8%	79,809	86,069	7.8%
Other Income	272	527	917	868	836	208%	-4%	2,046	2,562	25.2%
Total Income	22,731	22,960	20,586	22,327	20,556	-10%	-8%	81,855	88,630	8.3%
COGS	15,502	15,285	14,044	15,424	14,091	-9%	-9%	54,986	60,264	9.6%
Staff Cost	765	792	881	817	859	12%	5%	2,863	3,285	14.7%
Other Exp.	2,841	2,925	2,812	2,956	2,722	-4%	-8%	2,843	11,639	309.4%
Expenditure	19,108	19,002	17,737	19,196	17,672	-8%	-8%	67,746	75,065	10.8%
EBITDA	3,351	3,431	1,931	2,263	2,047	-39%	-10%	12,063	11,003	-8.8%
Depreciation	720	721	768	810	919	28%	13%	2,760	3,021	9.5%
EBIT	2,631	2,710	1,163	1,453	1,129	-57%	-22%	9,304	7,982	-14.2%
Interest	21	26	21	9	55	164%	522%	346	76	-78.1%
PBT	2,882	3,211	2,060	2,312	1,911	-34%	-17%	11,004	10,468	-4.9%
Excpt. Item	-	-	-	-	-	0%	0%	-	-	0.0%
Tax	907	971	571	517	475	-48%	-8%	3,286	2,973	-9.5%
PAT	1,975	2,240	1,489	1,796	1,435	-27%	-20%	7,881	7,651	-2.9%

Decline in revenue growth led by 18% YoY lower volumes

MARUTI posted a decline in revenue by 12% YoY to Rs.19719 crores which was largely driven by 18% decline in volumes. Sales in the domestic market stood at 374481 units which was lower by 19.3% YoY. The mini, compact segment and utility vehicles segments de-grew by 45%, 12% and 10% YoY respectively. LCV segment posted a growth of 35% YoY. Exports were at 28113 units with 6% YoY growth. Realization improved by 7% YoY on account of better product mix and price hikes.

Commodity price benefits and favorable foreign exchange improved gross margins by 41 bps QoQ

Gross margin improved by 41 bps QoQ to 28.5% led by softening of commodity prices and favorable foreign exchange variation. EBITDA margin has declined by 20 bps QoQ to 10.4% due to higher employee cost. However, the other expenses were lower by Rs.240 crores during the quarter led by lower royalty expenses due to lower sales. The company is making further efforts to reduce the advertisement and promotion expenses in order to improve margins.

Higher depreciation and tax expense impacted PAT margins

PAT declined by 27.3%YoY to Rs. 1435 crores. PAT margins declined by 109 bps QoQ to 7.3% on account of lower sales volume and higher depreciation expenses.

Concall highlights

- The PV industry has declined by 18.4%YoY in 1QFY20. Passenger car, UV and Vans has declined by 23%, 4.5% and 25.7% respectively.
- The management has stated that it is difficult to predict the growth number for FY20 at this point of time. The company has witnessed sharp decline in walk-ins across stores.
- The company is helping dealers by lowering down the inventory level as there is no optimism seen on consumer side.
- The industry has been witnessing a shift towards petrol vehicles (66% of total industry volumes) due to BS-VI norms. However, Maruti's petrol portfolio has improved by 600bps YoY to 78%.
- Models such as Alto, Baleno, Wagon R, Swift and Dzire have already been equipped with BS-VI.
- Royalty rate for the quarter was 5.2% of sales.
- 45% of the models have moved to INR based royalty and rest 55% of the models will move to INR based royalty by 2022-23.
- Exports revenue for the quarter was Rs.1406 crores.
- The company is testing about 50 EV prototypes across country.
- Gujarat plant production stands at 96623 units in 1QFY20.

Exhibit: Domestic Volume and Growth Trend

Domestic volume declined due to sluggish demand environment

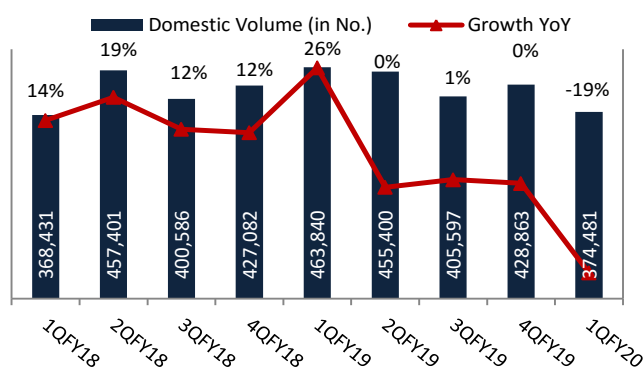


Exhibit: Export Volume and Growth Trend

Exports volume increased due to demand improvements in some of the key markets

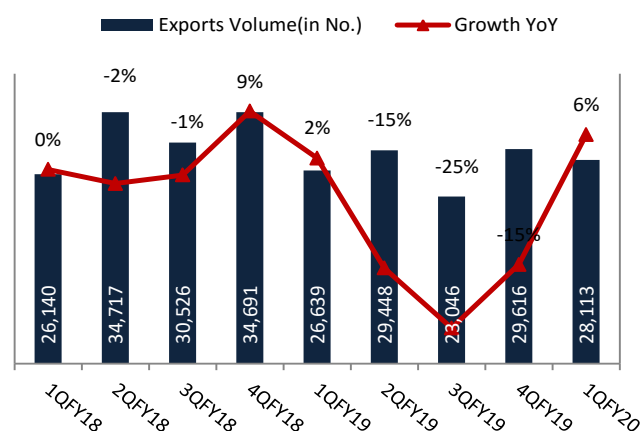


Exhibit: Realization and Realisation Growth Trend

Favourable product mix and price hikes led to realization growth of 7% YoY

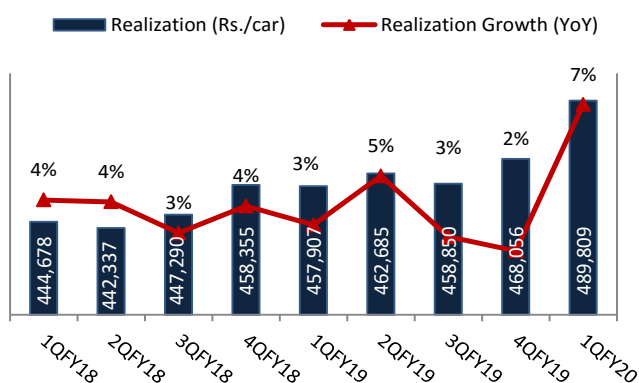


Exhibit: COGS (Rs. Crore) and Gross Margin trend

Gross margins improved by 41 bps QoQ led by favorable foreign exchange fluctuation

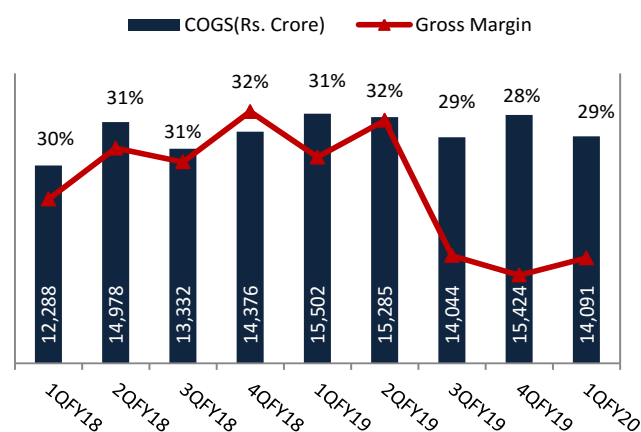


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

EBITDA margin has declined by 20 bps QoQ to 10.4% due to higher employee cost

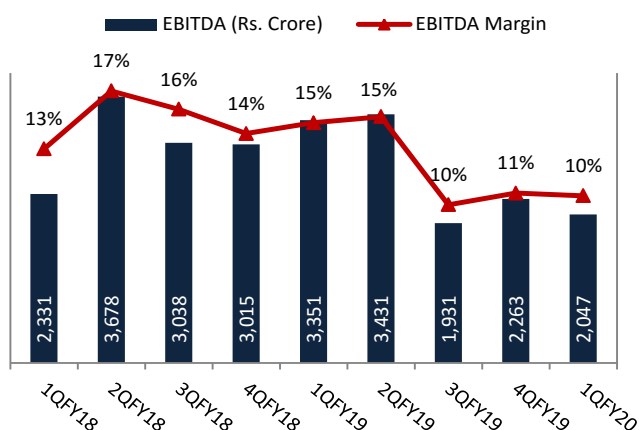


Exhibit: PAT (Rs. Crore) and PAT Margin trend

Higher depreciation and tax expenses impacted PAT margins

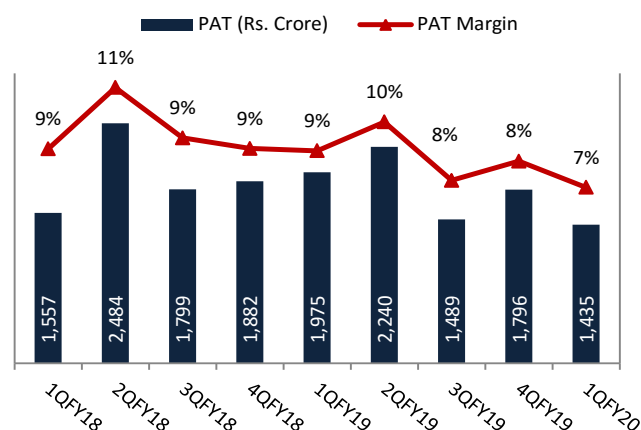


Exhibit: Sales Mix

Shift has largely remained in favour of premium segment cars (compact and utility vehicles)

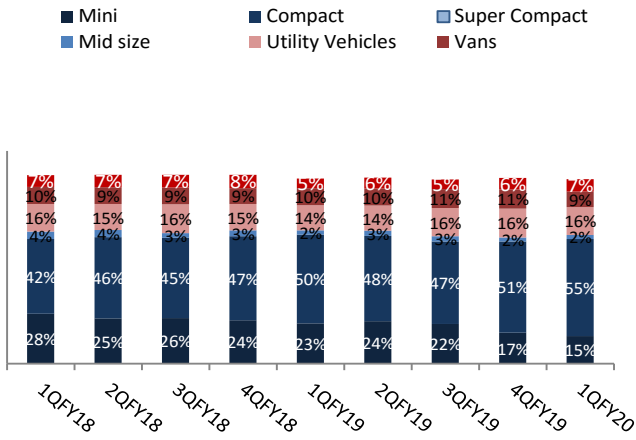


Exhibit: YEN-INR movement

Approximately 8-10% imports are denominated in Yen so 1% movement in Yen leads to 1% impact in margins

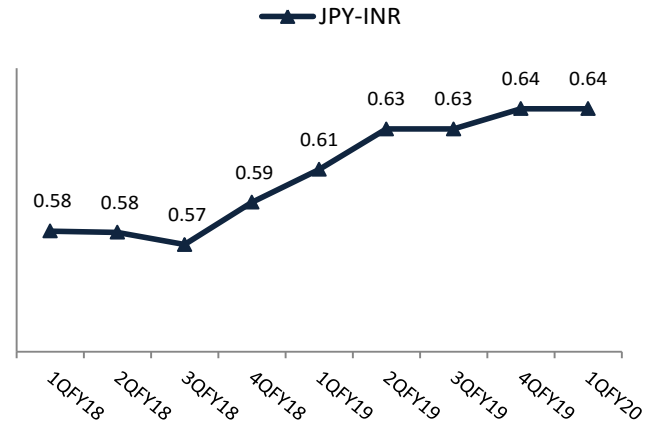


Exhibit: Discounts (Rs) and As % of Realisation Trend

Discounts have increased QoQ in order to improved demand during the quarter

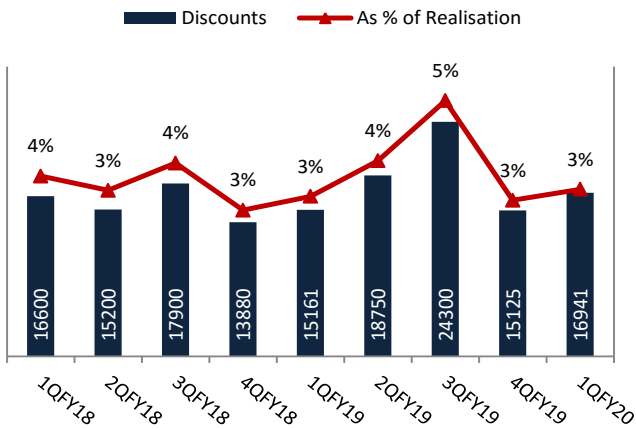


Exhibit: Royalty (Rs. Crore) and As % of Net Sales

New models are shifting towards volume based and INR based royalty

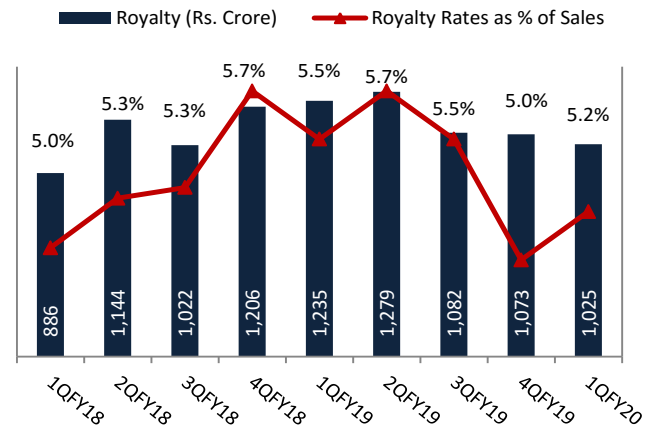
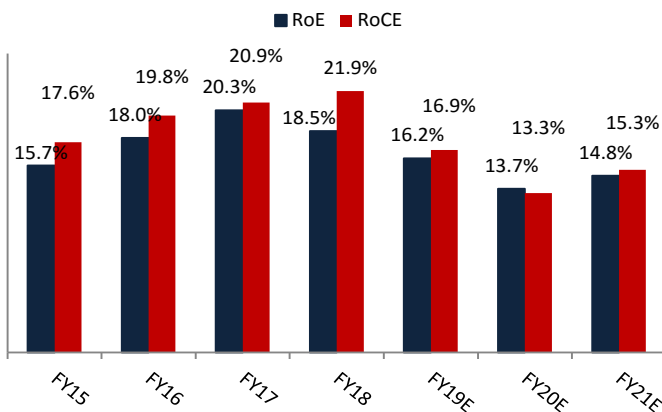


Exhibit: RoE and RoCE Trend

Subdued demand environment will lead to contraction in return ratios



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	151	151	151	151	151	151	151	151
Reserves	21,345	24,167	30,465	36,924	42,408	46,941	51,538	56,755
Networth	21,496	24,318	30,616	37,075	42,559	47,092	51,689	56,906
Debt	1,865	331	77	484	121	158	105	73
Other Non Cur Liab	1,045	886	1,051	1,633	2,214	2,691	2,691	2,691
Total Capital Employed	23,362	24,649	30,693	37,559	42,680	47,250	51,793	56,979
Net Fixed Assets (incl CWIP)	13,673	14,380	13,537	14,563	15,521	17,044	17,661	18,324
Non Cur Investments	1,521	9,992	19,535	26,972	34,906	32,458	40,680	45,547
Other Non Cur Asst	10	44	1,680	1,603	1,859	2,059	2,059	2,059
Non Curr Assets	16,858	25,782	34,774	43,162	52,318	51,596	60,434	65,965
Inventory	1,763	2,674	3,133	3,264	3,160	3,323	3,377	3,565
Debtors	1,489	1,144	1,323	1,203	1,465	2,313	2,350	1,771
Cash & Bank	649	43	51	24	74	188	60	60
Other Curr Assets	364	327	1,661	1,541	1,314	564	573	605
Curr Assets	14,554	8,696	7,951	8,798	7,930	12,373	10,489	10,946
Creditors	5,000	5,657	7,409	8,369	10,499	9,638	11,503	12,146
Provisons (both)	873	1,652	414	472	587	665	675	711
Other Curr Liab	1,321	1,917	1,165	1,828	2,090	1,633	2,187	2,309
Curr Liabilities	6,993	8,930	10,967	12,753	15,338	14,011	16,440	17,241
Net Curr Assets	7,561	(234)	(3,016)	(3,955)	(7,408)	(1,638)	(5,951)	(6,295)
Total Assets	31,411	34,479	42,726	51,961	60,248	63,969	70,924	76,911

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	44,451	50,801	57,589	68,085	79,809	86,069	87,468	92,357
Change (%)	0	14	13	18	17	8	2	6
Other Income	831	865	1,481	2,290	2,046	2,562	2,768	2,877
EBITDA	5,170	6,844	8,889	10,358	12,063	11,003	10,307	12,093
Change (%)	21	32	30	17	16	-9	-6	17
Margin (%)	11.6	13.5	15.4	15.2	15.1	12.8	11.8	13.1
Depr & Amor.	2,116	2,515	2,822	2,604	2,760	3,021	3,410	3,393
EBIT	3,054	4,329	6,067	7,754	9,304	7,982	6,897	8,700
Int. & other fin. Cost	185	218	82	89	346	76	58	-
EBT	3,700	4,976	7,466	9,954	11,004	10,468	9,606	11,577
Exp Item	-	-	-	-	-	-	-	-
Tax	902	1,185	2,087	2,616	3,286	2,973	2,707	3,357
Minority Int & P/L share of Ass.	23	18	119	173	163	156	179	197
Reported PAT	2,820	3,807	5,497	7,511	7,881	7,651	7,078	8,417
Adjusted PAT	2,820	3,807	5,497	7,511	7,881	7,651	7,078	8,417
Change (%)	16	35	44	37	5	-3	-7	19
Margin(%)	6.3	7.5	9.5	11.0	9.9	8.9	8.1	9.1

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	13%	16%	18%	20%	19%	16%	14%	15%
ROCE	13%	18%	20%	21%	22%	17%	13%	15%
Asset Turnover	1.42	1.47	1.35	1.31	1.32	1.35	1.23	1.20
Debtor Days	12	8	8	6	7	10	10	7
Inv Days	14	19	20	17	14	14	14	14
Payable Days	41	41	47	45	48	41	48	48
Int Coverage	0	0	0	0	0	0	0	-
P/E	24	29	20	24	34	27	25	21
Price / Book Value	3	5	4	5	6	4	3	3
EV/EBITDA	13	16	13	18	22	19	17	14
FCF per Share	(2)	1,958	1,252	1,109	3,486	3,271	2,465	3,231
Div Yield	0.5%	0.7%	0.7%	0.6%	0.8%	1.2%	1.3%	1.5%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	3,734	4,976	7,585	10,127	11,167	10,468	9,606	11,577
(inc)/Dec in Working Capital	5,111	6,779	8,935	10,413	12,036	13,722	13,236	15,167
Non Cash Op Exp	2,116	2,515	2,822	2,604	2,760	3,021	3,410	3,393
Int Paid (+)	185	218	82	89	346	76	58	-
Tax Paid	(858)	(1,075)	(1,912)	(2,323)	(3,056)	(2,973)	(2,707)	(3,357)
others	(182)	(95)	1,021	1,868	2,928	(1,106)	2,490	1,356
CF from Op. Activities	4,995	6,539	8,483	10,282	11,788	9,195	12,856	12,969
(inc)/Dec in FA & CWIP	(3,536)	(3,263)	(2,456)	(3,236)	(3,885)	(4,544)	(4,027)	(4,056)
Free Cashflow	1,459	3,276	6,026	7,046	7,903	4,651	8,830	8,913
(Pur)/Sale of Inv	(2,650)	(2,084)	(12,044)	(17,694)	(47,069)	(3,828)	1,857	(815)
others	1,189	766	71	56	88	2,448	(8,222)	(4,867)
CF from Inv. Activities	(4,997)	(4,581)	(7,230)	(9,173)	(8,302)	(5,925)	(10,392)	(9,738)
inc/(dec) in NW								
inc/(dec) in Debt	379	(1,358)	(235)	253	(709)	37	(53)	(31)
Int. Paid	(170)	(222)	(92)	(110)	-	(76)	(58)	-
Div Paid (inc tax)	(283)	(424)	(909)	(1,273)	(2,727)	(2,909)	(2,691)	(3,200)
others								
CF from Fin. Activities	(74)	(2,004)	(1,237)	(1,129)	(3,436)	(2,948)	(2,802)	(3,231)
Inc(Dec) in Cash	(76)	(45)	16	(21)	50	323	(337)	(1)
Add: Opening Balance	165	89	28	43	23	74	188	60
Closing Balance	89	43	43	23	73	397	(149)	59

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