




Maruti Suzuki India Ltd.

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

Margin expansion seems challenging in FY20

RATING	NEUTRAL
CMP	7390
Price Target	7070
Potential Upside	-4%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	7,929/5,447
Mkt Capital (Rs Cr)	223249
Free float (%)	44%
Avg. Vol 1M (,000)	1632
No. of Shares (Cr.)	30
Promoters Pledged %	0%

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2QFY20 Result Update

- ❑ MARUTI posted a decline in revenue by 24.3% YoY to Rs 16985 crs (vs our estimates of Rs. 15900) led by 30% YoY decline in volumes. However, realization grew by 9% YoY led by price hikes and increase of safety features in vehicles.
- ❑ Domestic revenues declined by 26%YoY to Rs.14891 crores because of 31%YoY decline in volumes.
- ❑ Exports revenue also declined by 14%YoY to Rs. 1229 crs due to 14%YoY decline in export volumes.
- ❑ Discounts for the quarter were Rs 25761 as against Rs 16941 in 1QFY20 (up by 52%).
- ❑ Royalty rate for the quarter was 5.2% of sales.
- ❑ Gross margin improved by 22bps QoQ to 28.8% due led by softening of commodity prices. However EBITDA margin declined by 93 bps QoQ to 9.5% led by higher promotional expenses. Further decline in margin was restricted by various cost reduction efforts made by the company.
- ❑ PAT for the quarter stood at Rs. 1359 crores. PAT margin improved by 72 bps QoQ to 8% due to higher other income and lower tax expenses.
- ❑ Depreciation was higher at 30% YoY during the quarter due to phasing out of some diesel engine plants (due to BS-VI) which had an impact of Rs. 168 crs in H1FY20.
- ❑ Tax rate has been reduced by 5% from effective 28% tax rate and it will be at 23% for full year FY20.
- ❑ Inventory level stands at 30-32 days at dealer's level and it is expected to remain at the same level going forward.

View and Valuation

The uncertainty in the demand scenario persist whereas low single digit growth on retails have been witnessed led by festivals. Due to slowdown in demand and increased competitive intensity discount per car has increased to Rs.25761 in 2QFY20 up by 50% on sequential basis. The company has also lost 120bps market share in 1HFY20 over FY19. Higher discounts and promotional expenses coupled with weaker operating leverage to keep the margins under pressure. Further, increase in depreciation cost will drag the overall profitability. Hence, we reduce the FY20/21 EPS estimate by 5%/6% due to weak volume growth and higher cost. We value the company at 27x FY21e EPS to arrive at a target price of Rs.7070 and recommend NEUTRAL.

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	75853	84956
EBITDA	10358	12063	11003	8104	10551
EBIT	7754	9304	7982	4387	7063
PAT	7511	7881	7651	5996	7911
EPS (Rs)	249	261	253	198	262
EPS growth (%)	36.6	4.9	(2.9)	(21.6)	31.9
ROE (%)	20.3	18.5	16.2	11.9	14.6
ROCE (%)	20.9	21.9	16.9	8.7	13.0
BV	1227	1409	1559	1661	1796
P/B (X)	4.9	6.3	4.4	4.4	4.1
P/E (x)	24.2	34.0	27.3	37.2	28.2

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2QFY20 Results

PAT above estimates

Fig in Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes (000)	485	429	458	403	338	-30%	-16%	1780	1862	4.7%
Realization	463	459	468	490	502	9%	2%	1,793	1,847	3.1%
Net Sales	22,433	19,668	21,459	19,719	16,985	-24%	-14%	79,809	86,069	7.8%
Other Income	527	917	868	836	920	75%	10%	2,046	2,562	25.2%
Total Income	22,960	20,586	22,327	20,556	17,905	-22%	-13%	81,855	88,630	8.3%
COGS	15,285	14,044	15,424	14,091	12,099	-21%	-14%	54,986	60,264	9.6%
Staff Cost	792	881	817	859	838	6%	-2%	2,863	3,285	14.7%
Other Exp.	2,925	2,812	2,956	2,722	2,441	-17%	-10%	2,843	3,562	25.3%
Expenditure	19,002	17,737	19,196	17,672	15,379	-19%	-13%	67,746	75,065	10.8%
EBITDA	3,431	1,931	2,263	2,047	1,606	-53%	-22%	12,063	11,003	-8.8%
Depreciation	721	768	810	919	926	28%	1%	2,760	3,021	9.5%
EBIT	2,710	1,163	1,453	1,129	680	-75%	-40%	9,304	7,982	-14.2%
Interest	26	21	9	55	28	10%	-48%	346	76	-78.1%
PBT	3,211	2,060	2,312	1,911	1,572	-51%	-18%	11,004	10,468	-4.9%
Excpt. Item	-	-	-	-	-	0%	0%	-	-	0.0%
Tax	971	571	517	475	213	-78%	-55%	3,286	2,973	-9.5%
PAT	2,240	1,489	1,796	1,435	1,359	-39%	-5%	7,881	7,651	-2.9%

Concall highlights

- The PV industry has declined by 28.7%YoY in 2QFY20. Passenger car, UV and Vans has declined by 37.2%, 3% and 45.2% YoY respectively.
- The domestic PV industry has been impacted due to increase in cost of acquisition, lower availability of finance, higher interest rate which impacted initial deposits for the buyers and increase in road tax across various states.
- The management indicated that cutting production will lead to loss of GST and fall in jobs as well.
- Rural has declined by 18%YoY (contributes 39% of total volumes) but declined at a lesser rate than the urban region.
- Overall diesel sales in the industry have declined to 22-23% from 33-38%.
- Retail sales for the company were down by 22% YoY in 2QFY20. Both wholesales and retails have been better in October month led by festive season demand.
- The industry has been witnessing a shift towards petrol vehicles (66.7% of total industry volumes) due to BS-VI norms. However, Maruti's petrol portfolio has improved to 77.5% from 74.2% YoY in 2QFY20.
- The company's market share in H1FY20 stands at 49.8%.
- The passenger car (Hatchbacks and Sedans) market share for the company declined to 60% from 66% in H1FY20. The SUV segment market share stands at 35%.
- The CNG share in overall volumes stands at 7% for the company varying from model to model.
- The company has launched 2 new models during the quarter, XL-6 and S-Presso and both have received good response from the customers.
- There have been 16500 bookings (700-750 bookings per day) for the S-Presso model. The company has delivered about 6000 models.
- The company has introduced 8 models in BS-VI – Alto, Baleno, Swift, Dzire, Wagon-R, Ertiga, XL-6 and S-Presso.
- The Ertiga model petrol variant will be launched by the end of FY20.
- Promotional expenses were higher during the quarter which led to margin decline. Going forward, the company will get benefit from lower commodity prices in coming quarters.
- Depreciation was higher at 30% YoY during the quarter due to phasing out of some diesel engine plants (due to BS-VI) which had an impact of Rs. 168 crs in H1FY20.
- Gujarat plant production stands at 82251 units in 2QFY20.
- Inventory level stands at 30-32 days at dealer's level and it is expected to remain at the same level going forward.
- Capex guidance for FY20 – Rs. 4000 crs.

Exhibit: Domestic Volume and Growth Trend

Domestic volume declined due to sluggish demand environment across industry

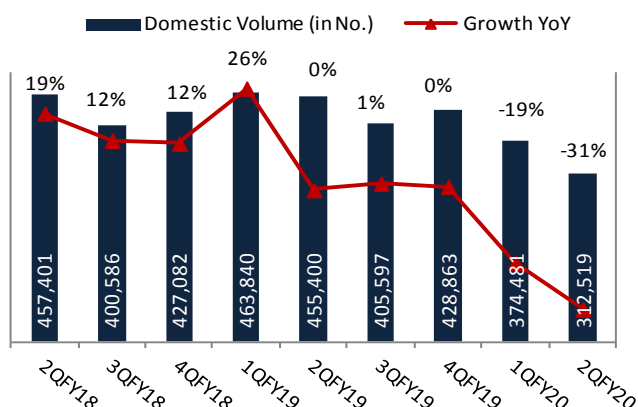


Exhibit: Export Volume and Growth Trend

Exports volume declined due to headwinds across some of the key markets

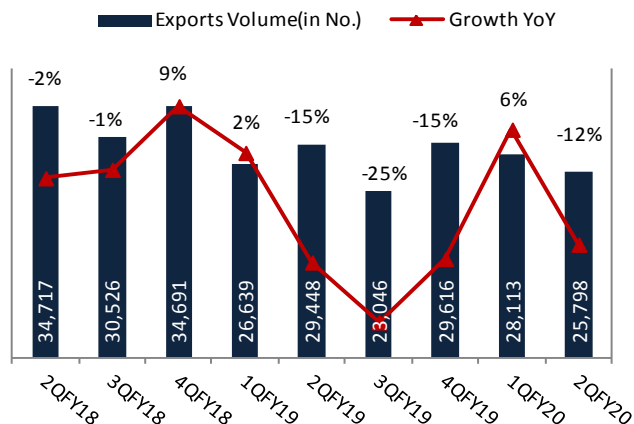


Exhibit: Realization and Realisation Growth Trend

Price hikes and increase in safety features in vehicles led to realization growth of 9% YoY

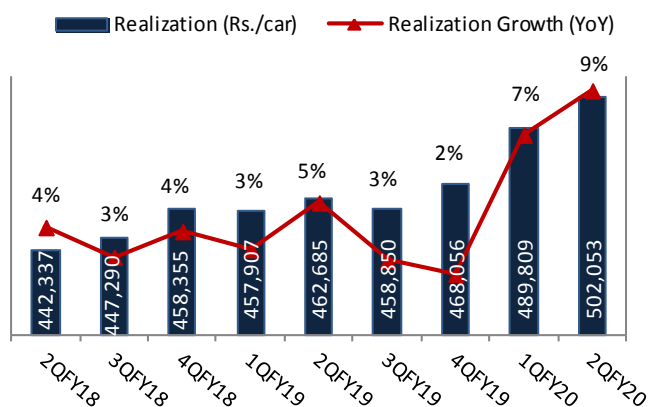


Exhibit: COGS (Rs. Crore) and Gross Margin trend

Gross margins improved by 22 bps QoQ led by softening of commodity prices

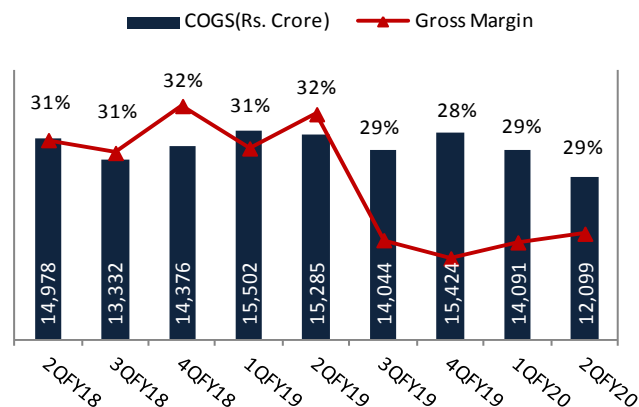


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

EBITDA margin has declined by 93 bps QoQ to 9.5% due to higher promotional expenses

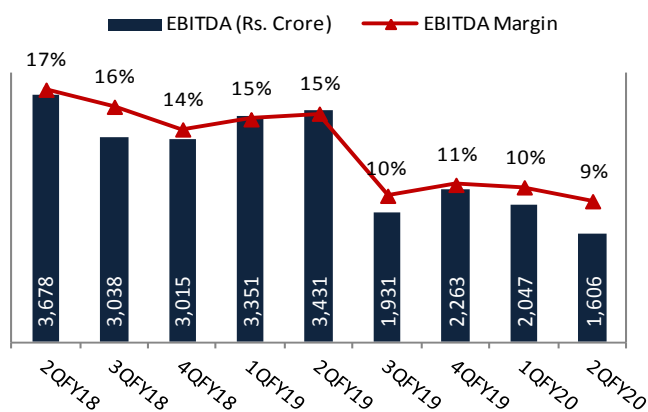


Exhibit: PAT (Rs. Crore) and PAT Margin trend

Higher other income and lower tax expenses improved PAT margins

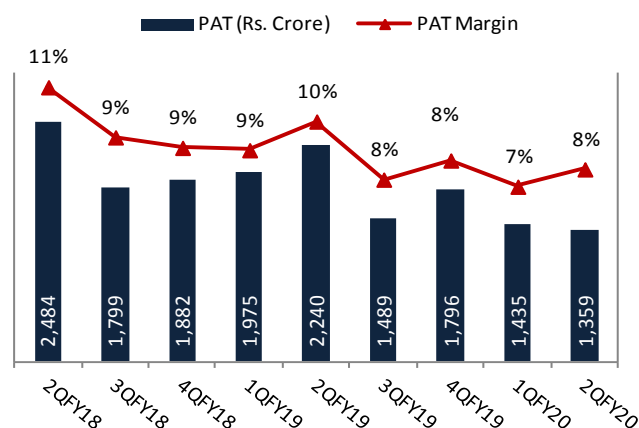


Exhibit: Sales Mix

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

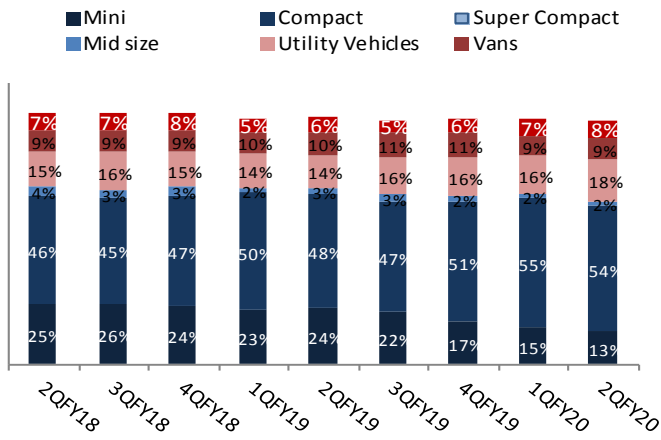


Exhibit: YEN-INR movement

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

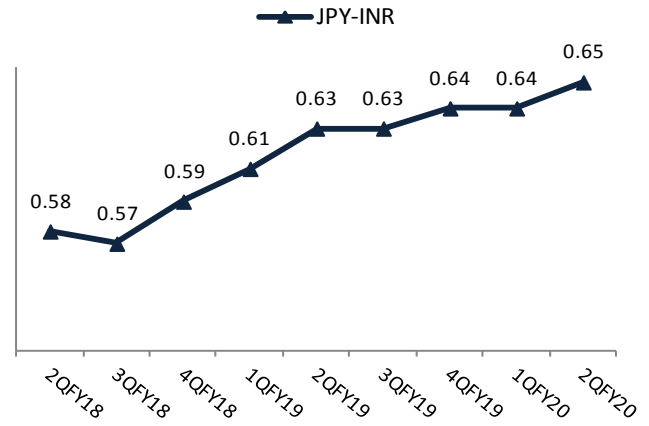


Exhibit: Discounts (Rs) and As % of Realisation Trend

Discounts have increased by 52% QoQ in order to improve demand during the quarter

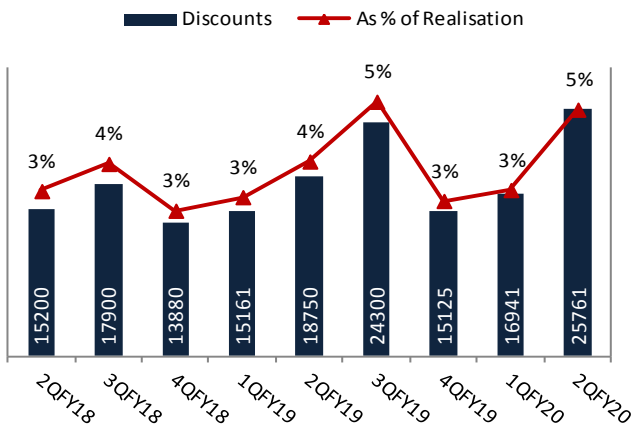


Exhibit: Royalty (Rs. Crore) and As % of Net Sales

New models are shifting towards volume based and INR based royalty

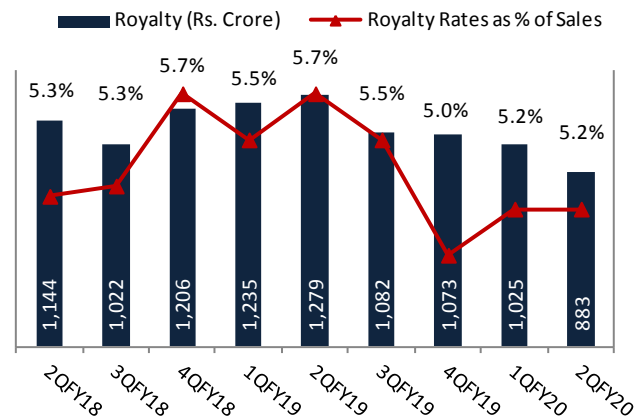
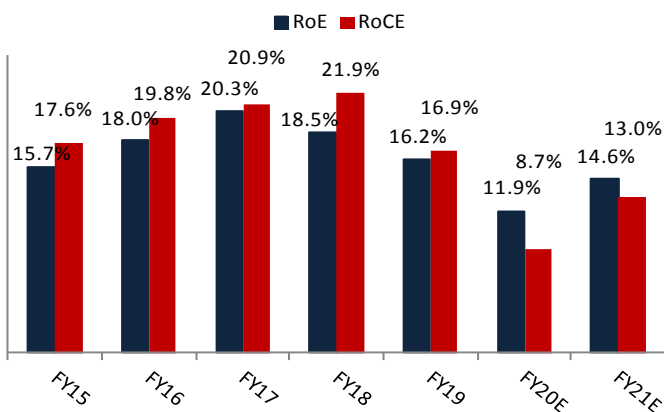


Exhibit: RoE and RoCE Trend

Subdued demand environment will lead to contraction in return ratios



Financial Details

Balance Sheet

Fig in Rs Cr

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	50,029	54,102
Networth	21,496	24,318	30,616	37,075	42,559	47,092	50,180	54,253
Debt	1,865	331	77	484	121	158	406	284
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	50,585	54,537
Net Fixed Assets (incl CWIP)	13,673	14,380	13,537	14,563	15,521	17,044	17,384	17,952
Non Cur Investments	1,521	9,992	19,535	26,972	34,906	32,458	38,329	43,043
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	57,807	63,088
Inventory	1,763	2,674	3,133	3,264	3,160	3,323	3,533	3,724
Debtors	1,489	1,144	1,323	1,203	1,465	2,313	2,494	2,560
Cash & Bank	649	43	51	24	74	188	55	66
Other Curr Assets	364	327	1,661	1,541	1,314	564	497	557
Curr Assets	14,554	8,696	7,951	8,798	7,930	12,373	10,007	10,167
Creditors	5,000	5,657	7,409	8,369	10,499	9,638	9,975	11,172
Provisons (both)	873	1,652	414	472	587	665	591	657
Other Curr Liab	1,321	1,917	1,165	1,828	2,090	1,633	1,896	2,124
Curr Liabilities	6,993	8,930	10,967	12,753	15,338	14,011	14,538	16,028
Net Curr Assets	7,561	(234)	(3,016)	(3,955)	(7,408)	(1,638)	(4,531)	(5,861)
Total Assets	31,411	34,479	42,726	51,961	60,248	63,969	67,813	73,255

Income Statement

Fig in Rs Cr

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	75,853	84,956
Change (%)	0.3	14.3	13.4	18.2	17.2	7.8	(11.9)	12.0
Other Income	831	865	1,481	2,290	2,046	2,562	3,270	3,316
EBITDA	5,170	6,844	8,889	10,358	12,063	11,003	8,104	10,551
Change (%)	21	32	30	17	16	(9)	(26)	30
Margin (%)	11.6	13.5	15.4	15.2	15.1	12.8	10.7	12.4
Depr & Amor.	2,116	2,515	2,822	2,604	2,760	3,021	3,716	3,488
EBIT	3,054	4,329	6,067	7,754	9,304	7,982	4,387	7,063
Int. & other fin. Cost	185	218	82	89	346	76	101	43
EBT	3,700	4,976	7,466	9,954	11,004	10,468	7,556	10,336
Exp Item	-	-	-	-	-	-	-	-
Tax	902	1,185	2,087	2,616	3,286	2,973	1,715	2,605
Minority Int & P/L share of Ass.	23	18	119	173	163	156	156	179
Reported PAT	2,820	3,807	5,497	7,511	7,881	7,651	5,996	7,911
Adjusted PAT	2,820	3,807	5,497	7,511	7,881	7,651	5,996	7,911
Change (%)	16	35	44	37	5	(3)	(22)	32
Margin(%)	6.3	7.5	9.5	11.0	9.9	8.9	7.9	9.3

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	13%	16%	18%	20%	19%	16%	12%	15%
ROCE	13%	18%	20%	21%	22%	17%	9%	13%
Asset Turnover	1.42	1.47	1.35	1.31	1.32	1.35	1.12	1.16
Debtor Days	12	8	8	6	7	10	12	11
Inv Days	14	19	20	17	14	14	17	16
Payable Days	41	41	47	45	48	41	48	48
Int Coverage	0	0	0	0	0	0	0	0
P/E	24	29	20	24	34	27	37	28
Price / Book Value	3	5	4	5	6	4	4	4
EV/EBITDA	13	16	13	18	22	19	28	21
FCF per Share	(2)	1,958	1,252	1,109	3,486	3,061	2,629	4,013
Div Yield	0.5%	0.7%	0.7%	0.6%	0.8%	1.2%	1.1%	1.4%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	3,734	4,976	7,585	10,127	11,167	10,624	7,556	10,336
(inc)/Dec in Working Capital	5,111	6,779	8,935	10,413	12,036	11,060	11,511	14,046
Non Cash Op Exp	2,116	2,515	2,822	2,604	2,760	3,021	3,716	3,488
Int Paid (+)	185	218	82	89	346	76	101	43
Tax Paid	(858)	(1,075)	(1,912)	(2,323)	(3,056)	(3,144)	(1,715)	(2,605)
others	(182)	(95)	1,021	1,868	2,928	(1,775)	340	1,352
CF from Op. Activities	4,995	6,539	8,483	10,282	11,788	6,601	9,998	12,615
(inc)/Dec in FA & CWIP	(3,536)	(3,263)	(2,456)	(3,236)	(3,885)	(4,577)	(4,056)	(4,056)
Free Cashflow	1,459	3,276	6,026	7,046	7,903	2,024	5,942	8,559
(Pur)/Sale of Inv	(2,650)	(2,084)	(12,044)	(17,694)	(47,069)	(52,957)	2,558	168
others	1,189	766	71	56	88	133	(5,871)	(4,714)
CF from Inv. Activities	(4,997)	(4,581)	(7,230)	(9,173)	(8,302)	(3,540)	(7,369)	(8,602)
inc/(dec) in NW								
inc/(dec) in Debt	379	(1,358)	(235)	253	(709)	(35)	248	(122)
Int. Paid	(170)	(222)	(92)	(110)	-	-	(101)	(43)
Div Paid (inc tax)	(283)	(424)	(909)	(1,273)	(2,727)	(2,913)	(2,909)	(3,837)
others								
CF from Fin. Activities	(74)	(2,004)	(1,237)	(1,129)	(3,436)	(2,948)	(2,762)	(4,001)
Inc(Dec) in Cash	(76)	(45)	16	(21)	50	113	(133)	12
Add: Opening Balance	165	89	28	43	23	73	188	55
Closing Balance	89	43	43	23	73	186	55	67

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