

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

RATING	NEUTRAL
CMP	6996
Price Target	7499
Potential Upside	7%

Rating Change	↔
Estimate Change	↑
Target Change	↔

STOCK INFO	
52wk Range H/L	7,755/5,447
Mkt Capital (Rs Cr)	211364
Free float (%)	44%
Avg. Vol 1M (,000)	1632
No. of Shares (Crs)	30
Promoters Pledged %	0%

RESEARCH ANALYST

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Higher discounts and inferior product mix limits margin expansion

3QFY20 Result update

- MARUTI's revenue grew by 5.3%YoY to Rs 20707 crores (vs our estimates of Rs. 20805 crores) led by 2% YoY volume growth. However, realization grew by 3.3% YoY led by price hikes.
- Domestic revenues grew by 4%YoY to Rs.18505 crores on account of 2%YoY volume growth and 2%YoY realization growth.
- Exports revenue declined by 1.2%YoY to Rs. 1144 crores due to 3.8%YoY decline in realization while volumes grew by 2.7%YoY.
- Discounts for the quarter were Rs 23000 as against Rs 25761 in 2QFY20 (down by 11%).
- Royalty rate for the quarter was 5.4% of sales.
- Gross margin hampered by 130bps QoQ to 27.5% largely led by higher discounts, inferior product mix and lower contribution of diesel cars. However EBITDA margin improved by 70 bps QoQ to 10.2% led by better operating leverage than last quarter. Further deterioration in margin was restricted by various cost reduction efforts and softening commodity prices.
- PAT for the quarter stood at Rs. 1565 crores (vs our estimates of Rs.1376 crores) with a growth of 5%YoY 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.
- Accelerated depreciation on diesel engine plant (phasing out due to BS-VI) led to increase in overall depreciation by Rs.168 crores in 1HFY20. The company has now reached to normalized depreciation rate.

View and Valuation

Rural demand is expected to drive growth in the future based on healthy monsoon and strong Rabi sowing. The company's overall market share has improved by about 120bps on a sequential basis with the launch of S-Presso and XL-6. Higher share of petrol vehicles (60% market share) and complete transition towards BS-VI models from February onwards will give Maruti an edge over its peers. Going ahead some of the benefit of higher realization on account of price hikes and BS-VI transition may get offset by increase in commodity prices and weaker operating leverage from 1QFY21 onwards. We largely maintain our FY21 EPS estimates. We value the company at 27x FY21e EPS to arrive at a target price of Rs. 7499 and maintain NEUTRAL.

Key Risks to our rating and target

- Continued slowdown in passenger vehicle industry
- Increase in commodity prices

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	68085	79809	86069	78245	89478
EBITDA	10358	12063	11003	7979	10972
EBIT	7754	9304	7982	4413	7373
PAT	7511	7881	7651	6010	8390
EPS (Rs)	249	261	253	199	278
EPS growth (%)	36.6	4.9	(2.9)	(21.4)	39.6
ROE (%)	20.3	18.5	16.2	12.0	15.2
ROCE (%)	20.9	21.9	16.9	8.8	13.4
BV	1227	1409	1559	1662	1822
P/B (X)	4.9	6.3	4.4	4.2	3.8
P/E (x)	24.2	34.0	27.3	35.2	25.2

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PAT above estimates

3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes (000)	429	458	403	338	437	2%	29%	1,780	1,862	4.7%
Realization	458,850	468,056	489,809	502,053	473,449	3%	-6%	1,793	1,847	3.1%
Net Sales	19,668	21,459	19,719	16,985	20,707	5%	22%	79,809	86,069	7.8%
Other Income	917	868	836	920	784	-15%	-15%	2,046	2,562	25.2%
Total Income	20,586	22,327	20,556	17,905	21,491	4%	20%	81,855	88,630	8.3%
COGS	14,044	15,424	14,091	12,099	15,013	7%	24%	54,986	60,264	9.6%
Staff Cost	881	817	859	838	867	-2%	3%	2,863	3,285	14.7%
Other Exp.	2,812	2,956	2,722	2,441	2,725	-3%	12%	2,843	3,562	25.3%
Expenditure	17,737	19,196	17,672	15,379	18,605	5%	21%	67,746	75,065	10.8%
EBITDA	1,931	2,263	2,047	1,606	2,102	9%	31%	12,063	11,003	-8.8%
Depreciation	768	810	919	926	858	12%	-7%	2,760	3,021	9.5%
EBIT	1,163	1,453	1,129	680	1,244	7%	83%	9,304	7,982	-14.2%
Interest	21	9	55	28	22	5%	-23%	346	76	-78.1%
PBT	2,060	2,312	1,911	1,572	2,006	-3%	28%	11,004	10,468	-4.9%
Excpt. Item	-	-	-	-	-	0%	0%	-	-	0.0%
Tax	571	517	475	213	441	-23%	107%	3,286	2,973	-9.5%
PAT	1,489	1,796	1,435	1,359	1,565	5%	15%	7,881	7,651	-2.9%

Concall Highlights

- The management expects rural demand to pick up based on healthy monsoon and strong Rabi crop sowing. Rural contributes 38% of Maruti's volumes.
- There will not be any big impact of pre-buying for Maruti as January will be the last month of BS-IV model production. The company has only 9 days of BS-IV inventory.
- Industry diesel penetration has fallen to 30%. And for Maruti it stood at less than 20%.
- The realization declined due to higher sales of entry segment cars, increased discounts and lower proportion of diesel cars.
- Exports revenue stood at Rs. 1144 crores.
- Discounts for the quarter stood at Rs. 23000 per car.
- Royalty rate for the quarter was 5.4%. sales.
- The Gujarat plant production stood at 116718 units for the quarter as against 82251 units in 2QFY20.
- The company has taken a price hike of Rs. 3500-7000 per car across models (3-5% increase).
- The The management expects commodity cost to increase from 1QFY21 considering the increase in precious metals prices. (majorly used in BS-VI engine).
- Capex guidance of Rs. 4000 crores for FY20 (spent about Rs. 2500 crores on 9MFY20 basis).
- Normalize tax rate to remain in the range of 22-23%.
- The localization level stood at 87% on vendor basis.
- The company has added 81 new Arena stores in 9MFY20. Total Arena store count stood at 2700.

Exhibit: Domestic Volume and Growth Trend

Domestic volume grew on the back of new launches and festivals

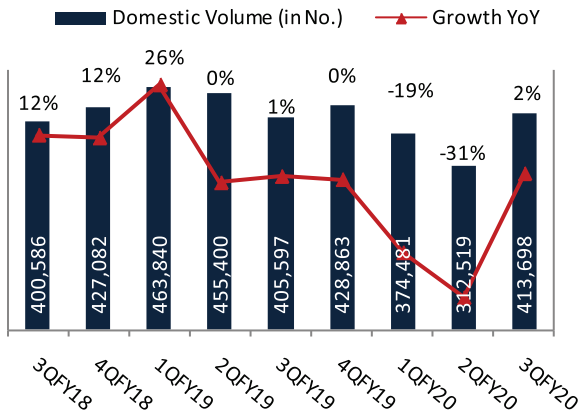


Exhibit: Export Volume and Growth Trend

Exports volume grew on account of improvement in key export markets

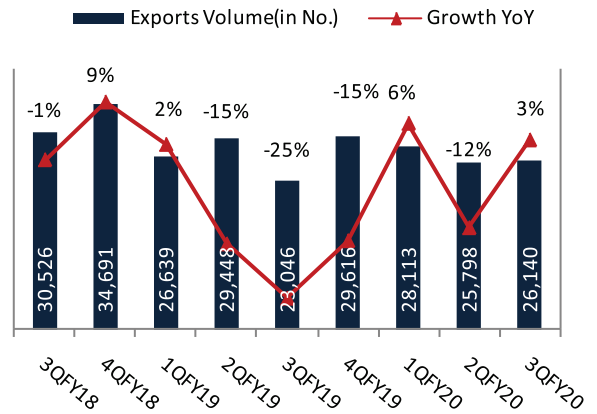


Exhibit: Realization and Realisation Growth Trend

Price hikes and new product launches led to increase in realization

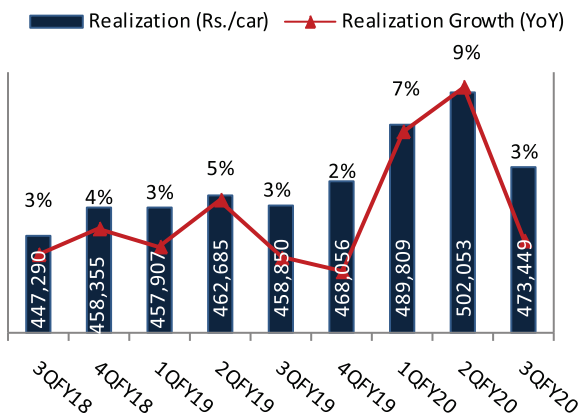


Exhibit: COGS (Rs. Crore) and Gross Margin trend

Gross margins declined by 130 bps QoQ due to inferior product mix and higher discounts

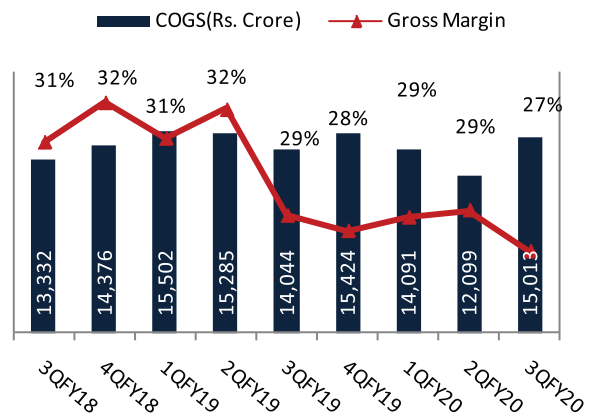


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

EBITDA margin has improved by 70bps QoQ on account of operating leverage benefit

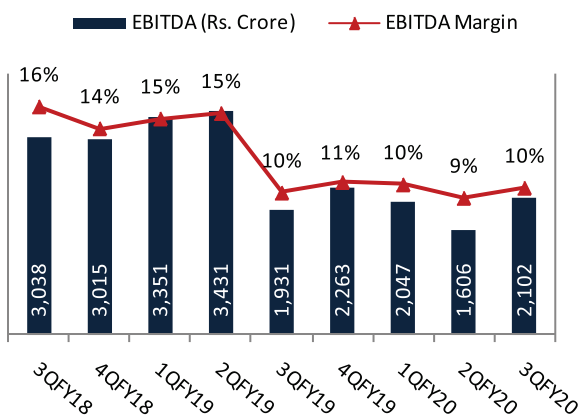


Exhibit: PAT (Rs. Crore) and PAT Margin trend

Lower other income and higher tax expenses led to QoQ contraction in PAT margins

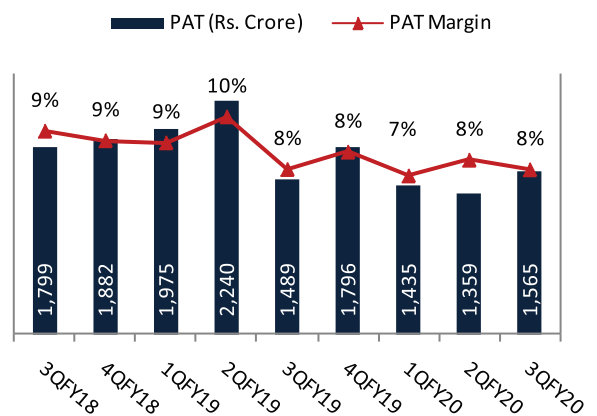


Exhibit: Sales Mix

Shift has shifted in favour of entry segment cars

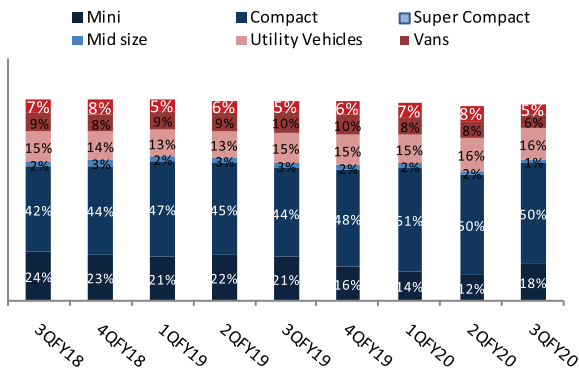


Exhibit: YEN-INR movement

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

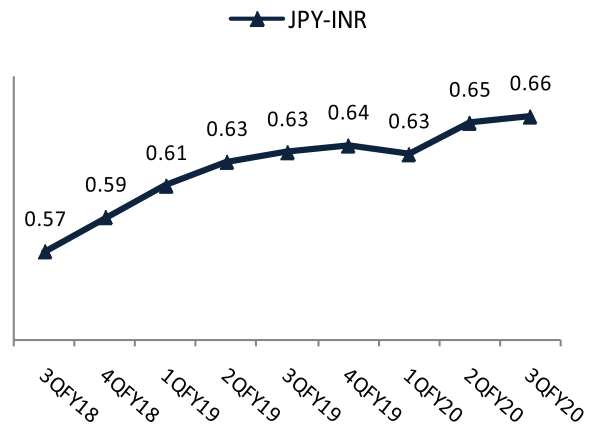


Exhibit: Discounts (Rs) and As % of Realisation Trend

Discounts have declined by 11% QoQ

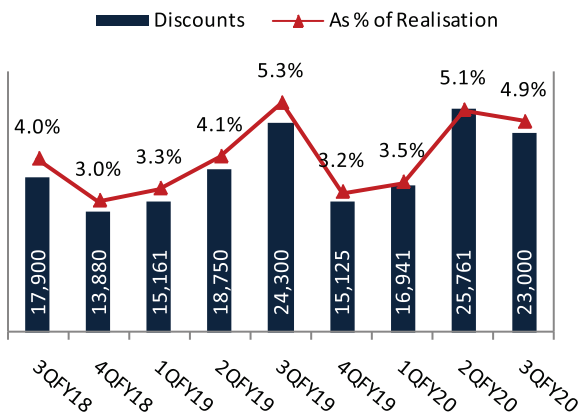


Exhibit: Royalty (Rs. Crore) and As % of Net Sales

New models are shifting towards volume based and INR based royalty

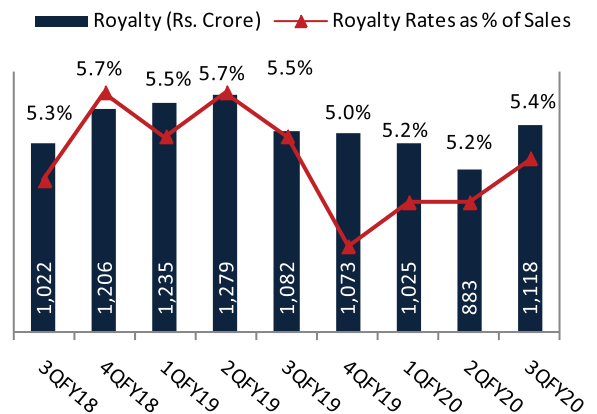
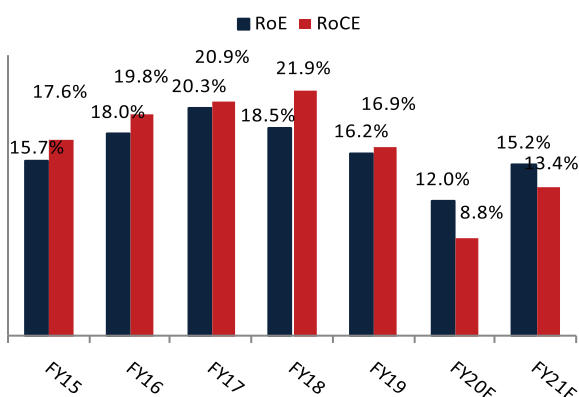


Exhibit: RoE and RoCE Trend

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	50,043	54,899
Networth	21,496	24,318	30,616	37,075	42,559	47,092	50,194	55,050
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	2,575	2,575
Total Capital Employed	23,362	24,649	30,693	37,559	42,680	47,250	50,599	55,334
Net Fixed Assets (incl CWIP)	13,673	14,380	13,537	14,563	15,521	17,044	17,286	17,743
Non Cur Investments	1,521	9,992	19,535	26,972	34,906	32,458	36,352	41,028
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	55,732	60,865
Inventory	1,763	2,674	3,133	3,264	3,160	3,323	3,859	3,922
Debtors	1,489	1,144	1,323	1,203	1,465	2,313	2,787	2,697
Cash & Bank	649	43	51	24	74	188	55	66
Other Curr Assets	364	327	1,661	1,541	1,314	564	513	586
Curr Assets	14,554	8,696	7,951	8,798	7,930	12,373	10,657	12,342
Creditors	5,000	5,657	7,409	8,369	10,499	9,638	8,575	10,296
Provisions (both)	873	1,652	414	472	587	665	608	690
Other Curr Liab	1,321	1,917	1,165	1,828	2,090	1,633	1,956	2,237
Curr Liabilities	6,993	8,930	10,967	12,753	15,338	14,011	13,214	15,298
Net Curr Assets	7,561	(234)	(3,016)	(3,955)	(7,408)	(1,638)	(2,557)	(2,956)
Total Assets	31,411	34,479	42,726	51,961	60,248	63,969	66,389	73,207

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	78,245	89,478
Change (%)	0.3	14.3	13.4	18.2	17.2	7.8	(9.1)	14.4
Other Income	831	865	1,481	2,290	2,046	2,562	3,191	3,392
EBITDA	5,170	6,844	8,889	10,358	12,063	11,003	7,979	10,972
Change (%)	21	32	30	17	16	(9)	(27)	38
Margin (%)	11.6	13.5	15.4	15.2	15.1	12.8	10.2	12.3
Depr & Amor.	2,116	2,515	2,822	2,604	2,760	3,021	3,566	3,599
EBIT	3,054	4,329	6,067	7,754	9,304	7,982	4,413	7,373
Int. & other fin. Cost	185	218	82	89	346	76	122	43
EBT	3,700	4,976	7,466	9,954	11,004	10,468	7,482	10,722
Exp Item	-	-	-	-	-	-	-	-
Tax	902	1,185	2,087	2,616	3,286	2,973	1,588	2,466
Minority Int & P/L share of Ass.	23	18	119	173	163	156	117	134
Reported PAT	2,820	3,807	5,497	7,511	7,881	7,651	6,010	8,390
Adjusted PAT	2,820	3,807	5,497	7,511	7,881	7,651	6,010	8,390
Change (%)	16	35	44	37	5	(3)	(21)	40
Margin(%)	6.3	7.5	9.5	11.0	9.9	8.9	7.7	9.4

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	1.18	1.22
Debtor Days	12	8	8	6	7	10	13	11
Inv Days	14	19	20	17	14	14	18	16
Payable Days	41	41	47	45	48	41	40	42
Int Coverage	0	0	0	0	0	0	0	0
P/E	24	29	20	24	34	27	35	25
Price / Book Value	3	5	4	5	6	4	4	4
EV/EBITDA	13	16	13	18	22	19	26	19
FCF per Share	(2)	1,958	1,252	1,109	3,486	3,061	2,649	3,710
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	7,482	10,722
(inc)/Dec in Working Capital	5,111	6,779	8,935	10,413	12,036	11,060	11,269	14,498
Non Cash Op Exp	2,116	2,515	2,822	2,604	2,760	3,021	3,566	3,599
Int Paid (+)	185	218	82	89	346	76	122	43
Tax Paid	(858)	(1,075)	(1,912)	(2,323)	(3,056)	(3,144)	(1,588)	(2,466)
others	(182)	(95)	1,021	1,868	2,928	(1,775)	(1,656)	2,171
CF from Op. Activities	4,995	6,539	8,483	10,282	11,788	6,601	7,810	14,069
(inc)/Dec in FA & CWIP	(3,536)	(3,263)	(2,456)	(3,236)	(3,885)	(4,577)	(3,809)	(4,056)
Free Cashflow	1,459	3,276	6,026	7,046	7,903	2,024	4,002	10,013
(Pur)/Sale of Inv	(2,650)	(2,084)	(12,044)	(17,694)	(47,069)	(52,957)	2,542	(1,627)
others	1,189	766	71	56	88	133	(3,894)	(4,676)
CF from Inv. Activities	(4,997)	(4,581)	(7,230)	(9,173)	(8,302)	(3,540)	(5,161)	(10,359)
inc/(dec) in NW								
inc/(dec) in Debt	379	(1,358)	(235)	253	(709)	(35)	248	(122)
Int. Paid	(170)	(222)	(92)	(110)	-	-	(122)	(43)
Div Paid (inc tax)	(283)	(424)	(909)	(1,273)	(2,727)	(2,913)	(2,909)	(3,534)
CF from Fin. Activities	(74)	(2,004)	(1,237)	(1,129)	(3,436)	(2,948)	(2,782)	(3,699)
Inc(Dec) in Cash	(76)	(45)	16	(21)	50	113	(133)	11
Add: Opening Balance	165	89	28	43	23	73	188	55
Closing Balance	89	43	43	23	73	186	55	66

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