

Industry
Bloomberg
BSE CODE

Automobiles
MSIL IN
532500

Higher fixed cost and low capacity utilization dampened margins

RATING	BUY
CMP	5035
Price Target	6200
Potential Upside	23%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	7,755/4002
Mkt Capital (Rs Cr)	152105
Free float (%)	61%
Avg. Vol 1M (,000)	3305
No. of Shares (Cr)	30
Promoters Pledged %	0%

RESEARCH ANALYST

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4QFY20 Result update

- MARUTI's revenue declined by 15%YoY to Rs 18199 crores (vs our estimates of Rs. 17381 crores) largely led by 16% YoY degrowth in volumes. However, realization grew by 1% YoY led by higher sales of BS-VI models.
- Domestic volumes declined by 16%YoY to 360428 units while revenues declined by 17%YoY to Rs.15966 crores
- Exports revenue declined by 19%YoY to Rs. 1190 crores due to 17%YoY decline in export volumes.
- Other operating income increased by 40%YoY to Rs.1013 crores.
- Discounts were Rs 19051 as against Rs 23000 in 3QFY20 (down by 17%).
- Royalty rate for the quarter was 5.4% of sales.
- Gross margin improved by 220bps QoQ to 29.7% largely led by softness in commodity prices, lower production in low margin SMG plant and change in SMG royalty accounting to other expenses.
- EBITDA margin contracted by 170 bps QoQ to 8.5% because of higher fixed costs and higher sales promotion expenses. The company reported lowest margins in last 7 years.
- PAT for the quarter stood at Rs. 1292 crores (vs our estimates of Rs.1225 crores) with a decline of 28%YoY. Higher other income and lower tax expenses arrested the further decline in PAT.

View and Valuation

The consumer sentiments have dampened due to lower income level and slowdown in overall economic activity. Hence the customers have started shifting towards smaller cars and this will be beneficial for the company in the near term. The management expects that personal cars preference over shared mobility may boost the demand in the current pandemic situation. Margin profile may take next 1-2 quarters to based on higher fixed cost and low capacity utilization levels. Going ahead management's thrust on network expansion in rural areas coupled with new launches in SUV segment and scrappage policy may drive growth. We maintain BUY rating with target price of Rs.6200. Currently the company is trading at 27x FY20 EPS.

Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20
Net Sales	57589	68085	79809	86069	75660
EBITDA	8889	10358	12063	11003	7313
EBIT	6067	7754	9304	7982	3784
PAT	5497	7511	7881	7651	5678
EPS (Rs)	182	249	261	253	188
EPS growth (%)	44.4	36.6	4.9	(2.9)	(25.8)
ROE (%)	18.0	20.3	18.5	16.2	11.5
ROCE (%)	19.8	20.9	21.9	16.9	7.7
BV	1014	1227	1409	1559	1636
P/B (X)	3.7	4.9	6.3	4.4	3.1
P/E (x)	20.4	24.2	34.0	27.3	26.8

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PAT above estimates

4QFY20 Results

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	FY19	FY20	YoY %
Volumes (000)	458	403	338	437	385	-16%	-12%	1,862	1,563	-16.1%
Realization	468,056	489,809	502,053	473,449	472,663	1%	0%	462,125	483,977	4.7%
Net Sales	21,459	19,719	16,985	20,707	18,199	-15%	-12%	86,069	75,660	-12.1%
Other Income	868	836	920	784	880	1%	12%	2,562	3,334	30.2%
Total Income	22,327	20,556	17,905	21,491	19,079	-15%	-11%	88,630	78,994	-10.9%
COGS	15,424	14,091	12,099	15,013	12,791	-17%	-15%	60,264	53,163	-11.8%
Staff Cost	817	859	838	867	819	0%	-5%	3,285	3,416	4.0%
Other Exp.	2,956	2,722	2,441	2,725	3,042	3%	12%	3,562	11,890	233.8%
Expenditure	19,196	17,672	15,379	18,605	16,652	-13%	-10%	75,065	68,347	-8.9%
EBITDA	2,263	2,047	1,606	2,102	1,546	-32%	-26%	11,003	7,313	-33.5%
Depreciation	810	919	926	858	823	2%	-4%	3,021	3,528	16.8%
EBIT	1,453	1,129	680	1,244	723	-50%	-42%	7,982	3,784	-52.6%
Interest	9	55	28	22	28	222%	30%	76	134	76.8%
PBT	2,312	1,911	1,572	2,006	1,576	-32%	-21%	10,468	6,984	-33.3%
Excpt. Item	-	-	-	-	-	0%	0%	-	-	0.0%
Tax	517	475	213	441	284	-45%	-36%	2,973	1,425	-52.1%
PAT	1,796	1,435	1,359	1,565	1,292	-28%	-17%	7,651	5,678	-25.8%

Concall Highlights

- The management stated that it will take at least next 1-2 months to get the clear picture of demand sentiments. Currently demand and affordability (low income level) both are under stress.
- The recent customer enquiries suggest that the demand may shift towards smaller cars.
- Considering the pandemic COVID-19, people may prefer personal cars over shared mobility.
- The majority of investments of the company is in debt mutual funds and the management do not anticipate any risk on that. However, the yield is expected to come down based on declining interest rates.
- Manesar plant has started production from yesterday, while Gurugram plant will start from next week. Gujarat plant will continue to shut till further notification.
- 1100 dealers have been opened till date (close to 30% of total dealer count).
- The company has been constantly working on to improve digital exposure and hence reduced 17-21 touch points out of 28 (starting from enquiry to delivery of vehicle).
- No long-term plans have been deferred as per the management.
- The company sold 800000 BS-VI vehicles in FY20. (~50% of total sales).
- The company continues to help dealers through inventory and cash incentives.
- Capex guidance of Rs.2700 crores for FY21.

Exhibit: Domestic Volume and Growth Trend

Domestic volume declined due to production shutdowns and closed dealerships.

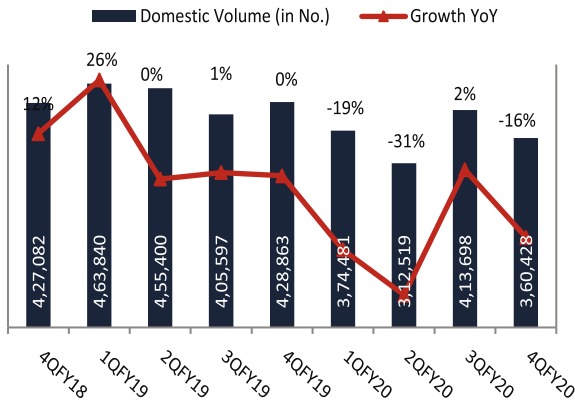


Exhibit: Export Volume and Growth Trend

Increased protectionism in exporting countries led to decline in volumes.

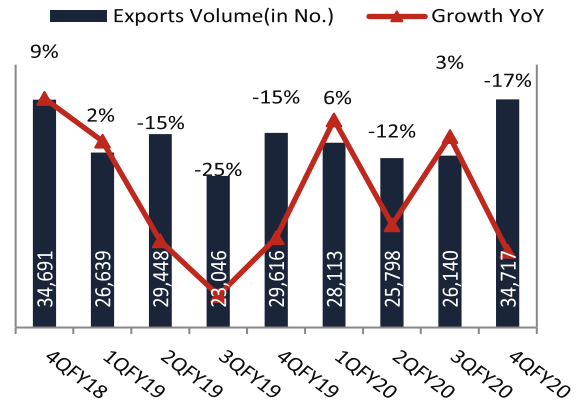


Exhibit: Realization and Realisation Growth Trend

Higher sales of BS-VI vehicles led to increase in overall realization.

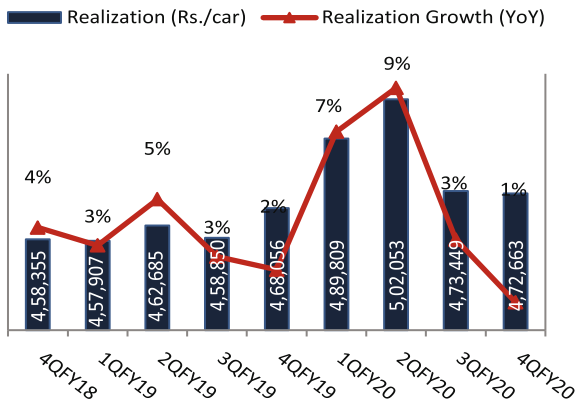


Exhibit: COGS (Rs. Crore) and Gross Margin trend

Gross margin improved due to softness in commodity prices and lower SMG production.

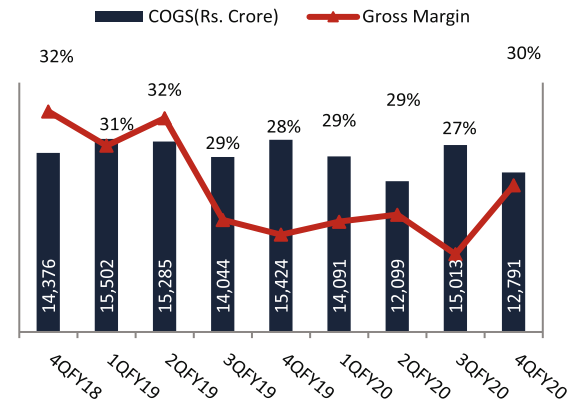


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Lowest EBITDA margin in last 28 quarters.

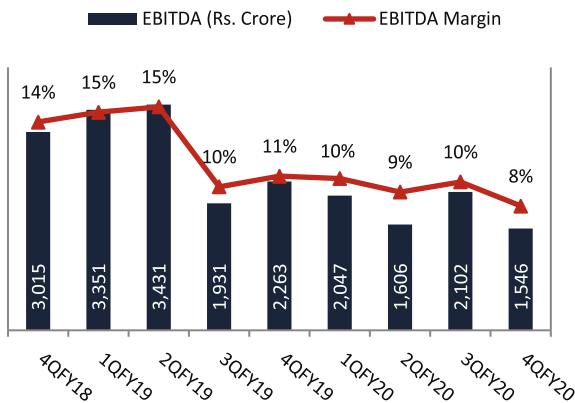


Exhibit: PAT (Rs. Crore) and PAT Margin trend

Higher other income and lower tax expenses arrested further decline in PAT.

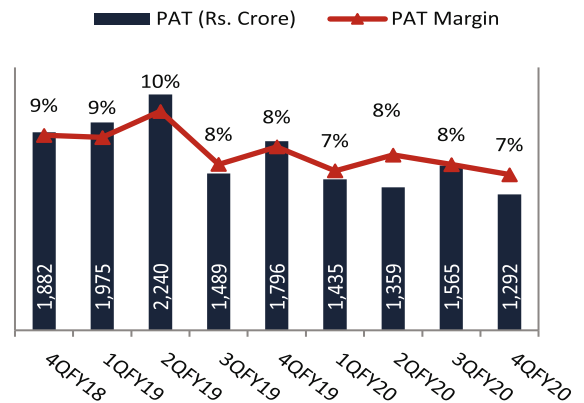


Exhibit: Sales Mix

Shift has shifted in favour of entry segment cars.

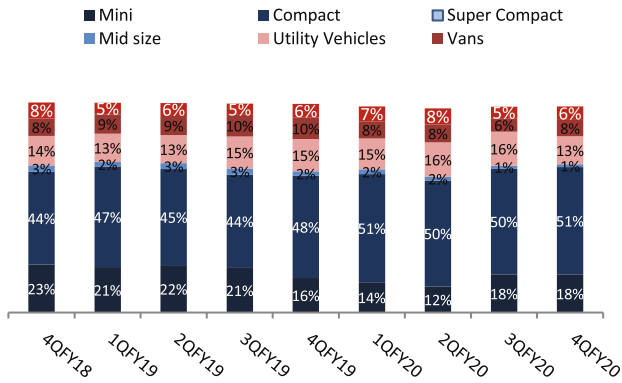


Exhibit: YEN-INR movement

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

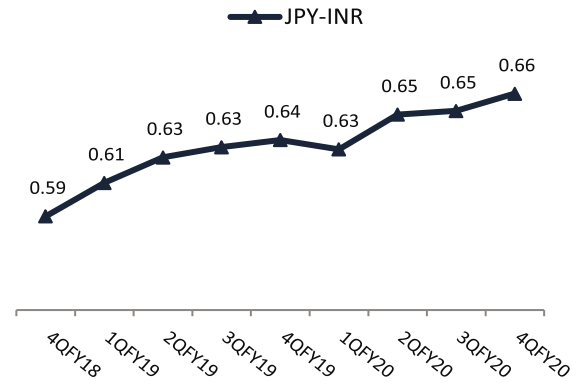


Exhibit: Discounts (Rs) and As % of Realisation Trend

Discounts have declined by 17% QoQ.

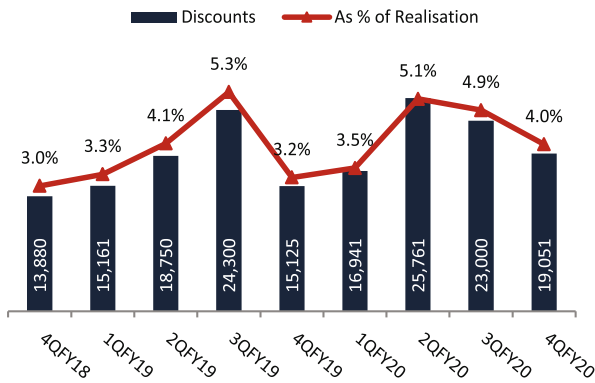
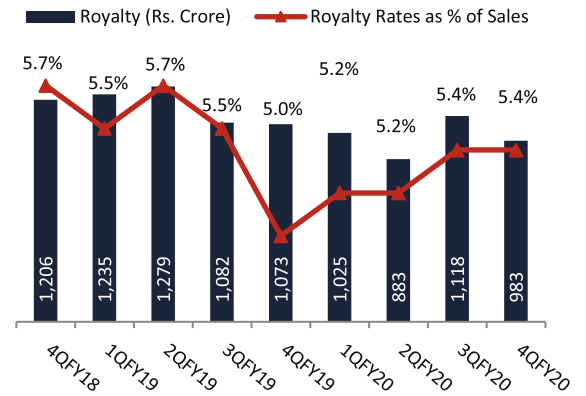


Exhibit: Royalty (Rs. Crore) and As % of Net Sales

New models are shifting towards volume based and INR based royalty.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	151	151	151	151	151	151	151	151
Reserves	18,877	21,345	24,167	30,465	36,924	42,408	46,941	49,262
Networth	19,028	21,496	24,318	30,616	37,075	42,559	47,092	49,413
Debt	1,569	1,865	331	77	484	121	158	112
Other Non Cur Liab	902	1,045	886	1,051	1,633	2,214	2,691	2,885
Total Capital Employed	20,597	23,362	24,649	30,693	37,559	42,680	47,250	49,525
Net Fixed Assets (incl CWIP)	11,988	13,673	14,380	13,537	14,563	15,521	17,044	17,160
Non Cur Investments	2,171	1,521	9,992	19,535	26,972	34,906	32,458	36,269
Other Non Cur Asst	895	10	44	1,680	1,603	1,859	2,059	1,722
Non Curr Assets	16,342	16,858	25,782	34,774	43,162	52,318	51,596	55,187
Inventory	1,887	1,763	2,674	3,133	3,264	3,160	3,323	3,214
Debtors	1,536	1,489	1,144	1,323	1,203	1,465	2,313	2,130
Cash & Bank	815	649	43	51	24	74	188	29
Other Curr Assets	553	364	327	1,661	1,541	1,314	564	798
Curr Assets	11,175	14,554	8,696	7,951	8,798	7,930	12,373	8,441
Creditors	4,277	5,000	5,657	7,409	8,369	10,499	9,638	7,499
Provisions (both)	868	873	1,652	414	472	587	665	732
Other Curr Liab	1,088	1,321	1,917	1,165	1,828	2,090	1,633	1,409
Curr Liabilities	6,008	6,993	8,930	10,967	12,753	15,338	14,011	11,199
Net Curr Assets	5,168	7,561	(234)	(3,016)	(3,955)	(7,408)	(1,638)	(2,759)
Total Assets	27,517	31,411	34,479	42,726	51,961	60,248	63,969	63,628

Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Operation	44,304	44,451	50,801	57,589	68,085	79,809	86,069	75,660
Change (%)	23	0	14	13	18	17	8	(12)
Other Income	830	831	865	1,481	2,290	2,046	2,562	3,334
EBITDA	4,284	5,170	6,844	8,889	10,358	12,063	11,003	7,313
Change (%)	73	21	32	30	17	16	(9)	(34)
Margin (%)	10	12	13	15	15	15	13	10
Depr & Amor.	1,890	2,116	2,515	2,822	2,604	2,760	3,021	3,528
EBIT	2,394	3,054	4,329	6,067	7,754	9,304	7,982	3,784
Int. & other fin. Cost	198	185	218	82	89	346	76	134
EBT	3,026	3,700	4,976	7,466	9,954	11,004	10,468	6,984
Exp Item	-	-	-	-	-	-	-	-
Tax	622	902	1,185	2,087	2,616	3,286	2,973	1,425
Minority Int & P/L share of Ass.	22	23	18	119	173	163	156	118
Reported PAT	2,427	2,820	3,807	5,497	7,511	7,881	7,651	5,678
Adjusted PAT	2,427	2,820	3,807	5,497	7,511	7,881	7,651	5,678
Change (%)	48	16	35	44	37	5	(3)	(26)
Margin(%)	5	6	7	10	11	10	9	8

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	13%	13%	16%	18%	20%	19%	16%	11%
ROCE	12%	13%	18%	20%	21%	22%	17%	8%
Asset Turnover	1.61	1.42	1.47	1.35	1.31	1.32	1.35	1.19
Debtor Days	13	12	8	8	6	7	10	10
Inv Days	16	14	19	20	17	14	14	16
Payable Days	35	41	41	47	45	48	41	36
Int Coverage	0	0	0	0	0	0	0	0
P/E	16	24	29	20	24	34	27	27
Price / Book Value	2	3	5	4	5	6	4	3
EV/EBITDA	9	13	16	13	18	22	19	21
FCF per Share	835	(2)	1,958	1,252	1,109	3,486	3,061	2,939
Div Yield	0.6%	0.5%	0.7%	0.7%	0.6%	0.8%	1.2%	1.6%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
PBT	3,070	3,734	4,976	7,585	10,127	11,167	10,624	7,103
(inc)/Dec in Working Capital	4,534	5,111	6,779	8,935	10,413	12,036	11,060	7,503
Non Cash Op Exp	1,890	2,116	2,515	2,822	2,604	2,760	3,021	3,528
Int Paid (+)	198	185	218	82	89	346	76	134
Tax Paid	(551)	(858)	(1,075)	(1,912)	(2,323)	(3,056)	(3,144)	(1,438)
others	(548)	(182)	(95)	1,021	1,868	2,928	(1,775)	(2,645)
CF from Op. Activities	4,059	4,995	6,539	8,483	10,282	11,788	6,601	3,496
(inc)/Dec in FA & CWIP	(3,529)	(3,536)	(3,263)	(2,456)	(3,236)	(3,885)	(4,577)	(3,158)
Free Cashflow	530	1,459	3,276	6,026	7,046	7,903	2,024	338
(Pur)/Sale of Inv	(848)	(2,650)	(2,084)	(12,044)	(17,694)	(47,069)	(52,957)	(44,205)
others	1,153	1,189	766	71	56	88	133	100
CF from Inv. Activities	(3,224)	(4,997)	(4,581)	(7,230)	(9,173)	(8,302)	(3,540)	(557)
inc/(dec) in NW								
inc/(dec) in Debt	(519)	379	(1,358)	(235)	253	(709)	(35)	(46)
Int. Paid	(208)	(170)	(222)	(92)	(110)	-	-	(136)
Div Paid (inc tax)	(252)	(283)	(424)	(909)	(1,273)	(2,727)	(2,913)	(2,913)
others								
CF from Fin. Activities	(979)	(74)	(2,004)	(1,237)	(1,129)	(3,436)	(2,948)	(3,104)
Inc(Dec) in Cash	(144)	(76)	(45)	16	(21)	50	113	(165)
Add: Opening Balance	203	165	89	28	43	23	73	186
Closing Balance	165	89	43	43	23	73	186	21

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