

# Maruti Suzuki India

25 October 2019

Reuters: MRTI.BO; Bloomberg: MSIL IN

## In line operating performance, multiple headwinds ahead

Maruti reported 2QFY20 earnings of Rs 13.59bn, down 35.3% YoY and ahead of our estimate of Rs10bn. This was mainly due to lower than expected effective tax rate (13.2%) and higher other income (Rs9.2bn vs NBIE est Rs7.5bn). Other income was driven by higher fair value gain on invested surplus. Net sales stood at Rs161.2bn, down 25.2% YoY. Decline was lower than volume decline of 30.2% YoY as ASP improved by 7.2% YoY. EBITDA margin came in at 9.5%, which is down 90bps QoQ and tad lower than our estimate of 9.7%. Margin would have been lower if not for the cost reduction measures and lower advertisement expense.

In the concall, management mentioned that sales have improved sequentially in September and further in the festival period. 2Q retail sales were down 22% YoY vs wholesale sales decline of 30% YoY and retail sales are marginally positive in the festival period so far compared to the same period last year. Also, inventory levels are at comfortable levels of 30-32 days now. That said, it is still difficult for management to gauge if demand will sustain post the festivals.

We remain negative on the stock as (a) Demand scenario remains uncertain post the festivals (b) Consumer preference is moving towards UVs and 10 out of 13 new launches in the PV segment were UVs. As a result, UV share in PVs has increased from 27.9% in FY19 to 33.3% in 1HFY20. Since Maruti is dominant in the cars segment, which is declining faster than UVs, it has been losing market share in the PV segment. We believe it will continue to lose market share as the more models will be launched in the UV segment. (c) 22.5% of Maruti's volumes in 2QFY20 were diesel and the company will not be converting its diesel offerings to BS6 for now. Hence, it won't be selling any diesel models from April 2020 onwards. We see this as another reason why Maruti will lose share in the medium term. Bringing everything into perspective, we expect a -1.2% CAGR in its volumes over FY19-22, which was -0.9% earlier. To incorporate the negative operating leverage we have lowered our EBITDA margin estimate to 11.2%/12%/13% for FY20/21/22E from 12.7%/13.3%/13.5% earlier. We have increased our other income estimate to match with the performance in 2HFY20 and we have considered a 23.5% tax rate for our estimated period as per management's guidance. This results in a PAT growth of 7.1% CAGR for FY19-22E. The stock is trading at 27x our Sept 2021 EPS, which is expensive. We upgrade our target multiple from 18x, which was at a discount, to its historical average of 21x mainly as we believe that after five quarters of volume decline we could see low single digit growth for the rest of the forecasted period. Thus, we arrive at our target price of Rs5,846 based on 21x Sept 2021 EPS. We maintain our Sell rating

**ASP increase, decent response to S-Presso and impact of softened commodity price are a few positives to lookout for:** Firstly, the ASP increase of 7.2% YoY in 2QFY20 to pass-on safety equipment cost and BS6 cost increase is impressive given the demand scenario. Secondly, it has already received 16,500 bookings for the New S-Presso in 25 days. And Lastly, bigger impact of softened commodity prices will be coming in 2HFY20.

## SELL

**Sector:** Automobile

**CMP:** Rs7,390

**Target Price:** Rs5,846

**Downside:** 21%

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### Key Data

Current Shares O/S (mn)	302.1
Mkt Cap (Rsb/US\$b)	2,232.8/31.4
52 Wk H / L (Rs)	7,950/5,446
Daily Vol. (3M NSE Avg.)	1,560,223

### Price Performance (%)

	1 M	6 M	1 Yr
Maruti Suzuki India	5.5	5.3	9.2
Nifty Index	(0.0)	(1.2)	13.3

Source: Bloomberg

Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	FY19YTD	FY20YTD
Net Revenue	2,22,332	1,97,198	1,69,853	(23.6)	(13.9)	4,46,926	3,67,051
COGS	1,52,849	1,40,913	1,20,994	(20.8)	(14.1)	3,07,869	2,61,907
% of sales	68.7	71.5	71.2	2.5	(0.2)	68.9	71.4
Gross margin %	31.3	28.5	28.8	(250bps)	30bps	31.1	28.6
Employee costs	7,917	8,591	8,384	5.9	(2.4)	15,569	16,975
% of sales	3.6	4.4	4.9	1.4	0.6	3.5	4.6
Other expenses	29,253	27,216	24,412	(16.5)	(10.3)	57,664	51,628
% of sales	13.2	13.8	14.4	1.2	0.6	12.9	14.1
EBITDA	32,313	20,478	16,063	(50.3)	(21.6)	65,824	36,541
EBITDA margin %	14.5	10.4	9.5	(500bps)	(90bps)	14.7	10.0
Depreciation	7,212	9,186	9,261	28.4	0.8	14,410	18,447
EBIT	25,101	11,292	6,802	(72.9)	(39.8)	51,414	18,094
EBIT margin %	11.3	5.7	4.0	(730bps)	(170bps)	11.5	4.9
Interest expenses	257	547	282	9.7	(48.4)	464	829
Other income	5,266	8,364	9,200	74.7	10.0	7,984	17,564
Exceptional items	(2,000)	-	-	-	-	(2,000)	-
PBT	32,110	19,109	15,720	(51.0)	(17.7)	60,934	34,829
Tax	9,706	4,754	2,134	(78.0)	(55.1)	18,777	6,888
Effective tax rate %	30.2	24.9	13.6	(16.7)	(11.3)	30.8	19.8
Reported PAT	22,404	14,355	13,586	(39.4)	(5.4)	42,157	27,941
Adj PAT	21,004	14,355	13,586	(35.3)	(5.4)	40,757	27,941
PAT margin %	9.4	7.3	8.0	(140bps)	70bps	9.1	7.6
EPS	69.5	47.5	45.0	(35.3)	(5.4)	135.0	92.5

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Volume	17,79,574	18,62,449	16,45,318	16,82,207	17,97,688
YoY growth (%)	13.6	4.7	-11.7	2.2	6.9
Net sales	7,97,627	8,60,203	7,98,642	8,49,480	9,45,986
YoY growth (%)	17.2	7.8	-7.2	6.4	11.4
EBITDA	1,20,615	1,09,993	89,448	1,01,938	1,22,978
EBITDA margin (%)	15.1	12.8	11.2	12.0	13.0
Adjusted PAT	77,218	75,006	67,501	75,898	92,249
EPS	255.7	248.4	223.5	251.3	305.5
YoY change (%)	5.2	(2.9)	(10.0)	12.4	21.5
RoCE (%)	26.7	22.5	17.4	17.8	19.5
RoE (%)	19.8	17.1	14.0	14.3	15.8
P/E (x)	28.9	29.8	33.1	29.4	24.2
EV/EBITDA (x)	15.6	17.0	20.5	17.5	13.9
EV/Sales (x)	2.4	2.2	2.4	2.2	1.9

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Change in our estimates

Y/E March (Rsmn)	New estimate			Old estimate			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY21E
Volume	16,45,318	16,82,207	17,97,688	16,57,460	17,16,106	18,12,807	(0.7)	(2.0)	(0.8)
Total Revenue	7,98,642	8,49,480	9,45,986	8,03,654	8,63,891	9,52,671	(0.6)	(1.7)	(0.7)
EBITDA	89,448	1,01,938	1,22,978	1,02,064	1,14,898	1,28,611	(12.4)	(11.3)	(4.4)
EBITDA margin (%)	11.2	12.0	13.0	12.7	13.3	13.5	(150bps)	(130bps)	(50bps)
Adj PAT	67,501	75,898	92,249	69,336	77,582	87,158	(2.6)	(2.2)	5.8

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Deviation of our estimates from actual performance in 2QFY20

(Rsmn)	Actual	Our estimate	Deviation
	2QFY20	2QFY20	(%)
Net sales	1,61,204	1,59,408	1.1
EBITDA margin (%)	9.5	9.7	(20bps)
Adj PAT	13,586	10,063	35.0

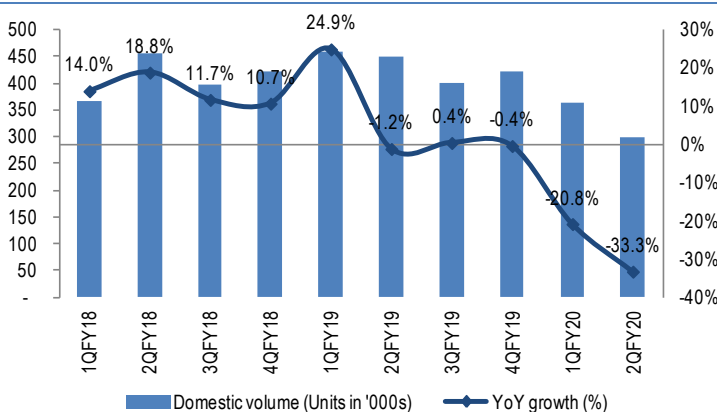
Source: Nirmal Bang Institutional Equities Research

## Key Conference-call Highlights:

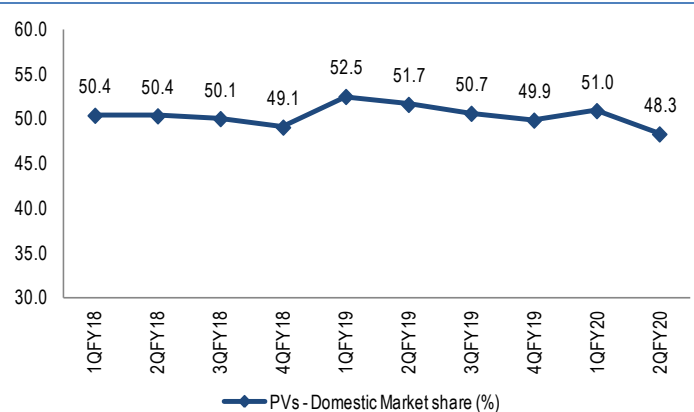
- Demand outlook:** Management indicated that there has been an uptick in inquiries and conversion rate towards end-September that has continued in October. Demand has improved in festivals and retail sales so far are up marginally compared to same time during last year's festival period. But it's difficult to gauge if demand will sustain post festivals as current uptick in demand is driven by higher promotions and positive festive sentiment. Thus, it needs to be assessed whether retail demand persists after the promotions are reduced and festive season ends.
- Exports:** Revenue from exports stood at Rs12,290mn against Rs14,270mn in 2QFY19. Exports volume for 2QFY20 declined 12.4% YoY to 25,798 units (29,448 units in 2QFY19).
- Volume:** MSIL's volume declined during the quarter by 30% YoY because of weak market conditions. Overall retail volume declined by 22% during 2QFY20. However, retail sales during festive season have seen marginal growth YoY and management is cautious about the sustainability of volume uptick post festive.
- Market share:** Overall market share for 2QFY20 and 1HFY20 stood at 48.3% and 49.8%, respectively. In 1HFY20, MSIL gained market share in PC and Van segments whereas it lost market share in the UV segment, which is relatively a faster growing segment for the industry. Share of passenger cars in overall industry came down to ~60% from ~66% last year. Management indicated that it is seeing a shift in trend where UVs and bigger cars are preferred over small cars and it will conduct a study on the same.

- Operating margin:** EBITDA margin contracted ~500bps YoY on account of negative operating leverage, higher sales promotion and depreciation expenses, but this was partially offset by cost-reduction efforts. Higher depreciation expense was on account of accelerated depreciation charged on diesel engine plant (impact was ~Rs1,600mn for 1HFY20). Other expense declined due to lower royalty expense on account of lower volume. Promotion expenditure was sequentially higher because of the launch of new models and higher scale of promotional schemes operated during the quarter to trigger demand. Benefits of lower commodity prices will accrue in 3Q and 4Q (due to lag effect).
- Inventory:** Current inventory level with dealers stood at close to 30-32 days. Management considers this to be an ideal level and intends to maintain dealer inventory at this level even post festive season and thus wholesales will move in tandem with retail sales. Overall inventory mix between BSIV and BSVI roughly stood at 50:50 each (i.e. BSIV inventory stood close to 15 days). Excluding diesel, ~70% of the inventory is BSVI inventory. Factory inventory stood at ~50,000 units as at September end (will come down in Oct and Nov).
- BSVI – MSIL's 8 top selling models** are BSVI compliant. These include Alto, Baleno, Swift, Dzire, WagonR, Ertiga, XL6 and S-Presso. Company produces only BSVI stock for these models (BSIV stock for these models have almost exhausted). Management stated that it does not feel that MSIL will be at disadvantage due to early adoption of BSVI as customers are seeing value in BSVI.
- Diesel strategy:** In 2QFY20 Maruti's petrol mix improved from 74.2% to 77.5% YoY. Company announced earlier discontinuance of diesel portfolio especially for small cars. Company is currently monitoring competitors' action and price increase for diesel models under BSVI. It will conduct a study before deciding to enter BSVI diesel segment. Company will launch petrol variants for Brezza before the end of the year. Management indicated that it would be fair to assume that MSIL will not have any diesel model in its portfolio on 1<sup>st</sup> April, 2020.
- Geographic mix:** Share of rural sales stood at 39% for MSIL. Rural market de-grew by ~18% in 1HFY20. Urban market de-growth was however much higher than rural de-growth.
- Royalty:** In 2QFY20, royalty payment stood at Rs8,450mn i.e. 5.2% of sales against 5.7% of sales in the same quarter last year. This includes royalty to SMP.
- Discount per vehicle:** During the quarter, average discount increased sharply QoQ and stood at Rs25,761/vehicle against Rs18,758/vehicle in 2QFY19 and Rs16,941 in 1QFY20. Management indicated that discounts have increased in October due to aggressive discounting action by competitors. MSIL will respond to market condition and will reduce discounts if the uptick in demand persists.
- Recently launched models:** MSIL launched XL6 and S-presso during the quarter and these models have received a favourable response with S-presso registering bookings of over 16,500 vehicles in about 25 days (700-750 bookings per day). It will be difficult to judge whether S-presso is cannibalizing company's other models as other models are also seeing a demand uptick.
- Finance penetration:** Availability of financing is not an issue and some of large banks are now offering 100% financing on road. Finance penetration stood at 80% during the quarter (similar levels earlier).

**Exhibit 4: PVs – Domestic volume & YoY growth (%)**

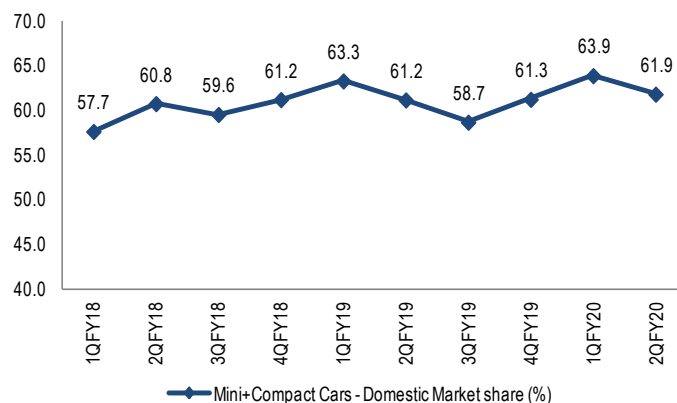
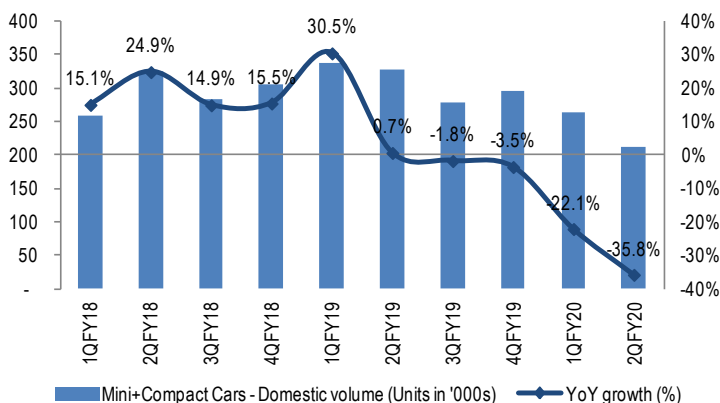


**Exhibit 5: PVs – Domestic market share (%)**



**Exhibit 6: Mini+Compact – Domestic volume & YoY growth(%)**

**Exhibit 7: Mini+Compact – Domestic Market share (%)**

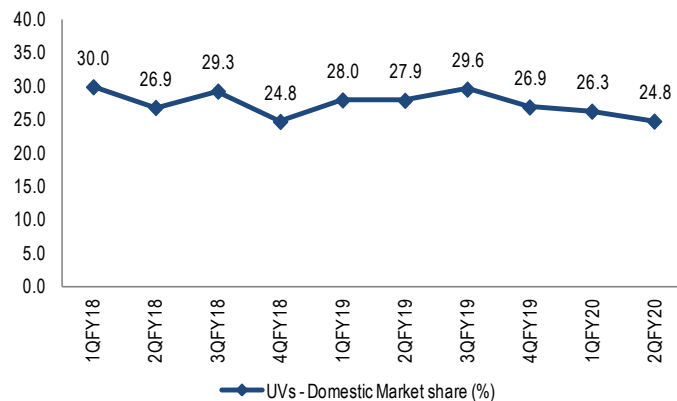
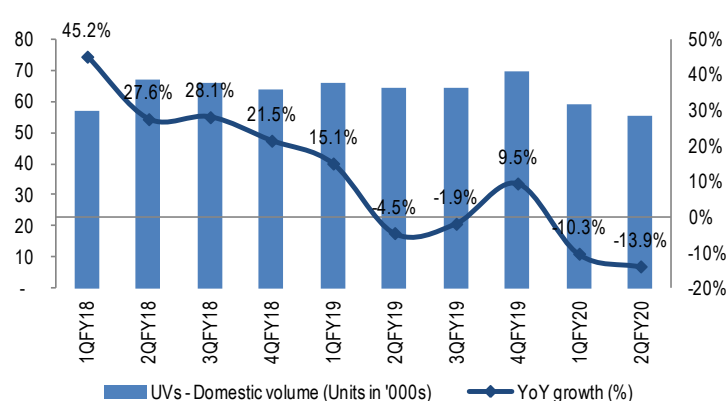


Source: SIAM, Nirmal Bang Institutional Equities Research

Source: SIAM, Nirmal Bang Institutional Equities Research

**Exhibit 8: UVs – Domestic volume & YoY growth (%)**

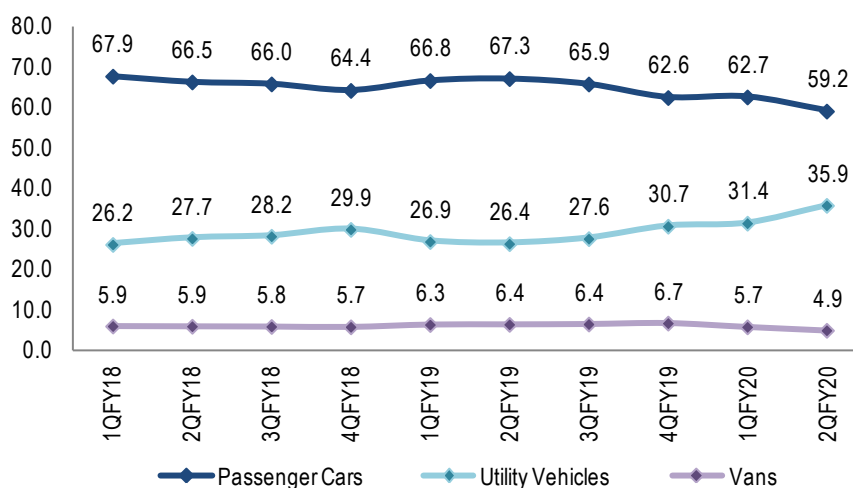
**Exhibit 9: UVs – Domestic Market share (%)**



Source: SIAM, Nirmal Bang Institutional Equities Research

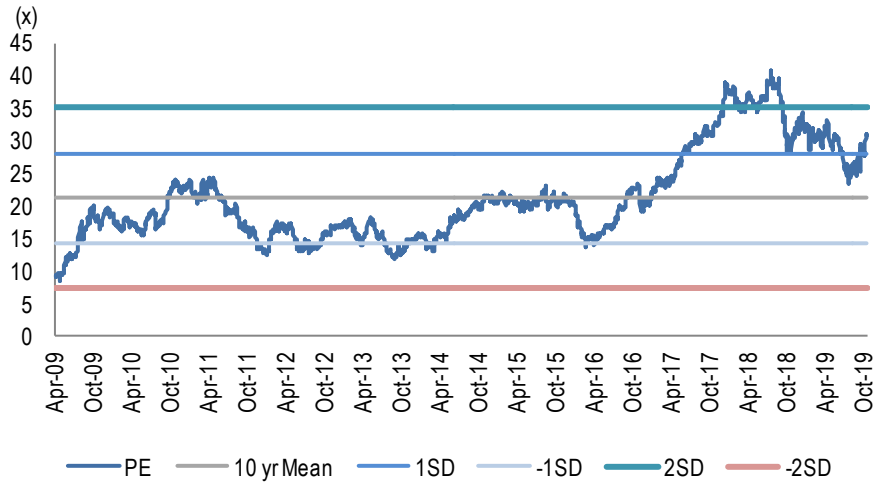
Source: SIAM, Nirmal Bang Institutional Equities Research

**Exhibit 10: Market share of PC, UV & Vans - Industry (%)**



Source: Nirmal Bang Institutional Equities Research

**Exhibit 11: P/E chart**



Source: Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 12: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Total Revenue</b>	<b>7,97,627</b>	<b>8,60,203</b>	<b>7,98,642</b>	<b>8,49,480</b>	<b>9,45,986</b>
<b>% Growth</b>	<b>17.2</b>	<b>7.8</b>	<b>(7.2)</b>	<b>6.4</b>	<b>11.4</b>
Raw material	5,49,750	6,02,542	5,65,439	5,98,883	6,62,190
Staff costs	28,338	32,549	35,939	35,678	36,893
Selling & distribution	22,334	27,526	26,355	29,732	32,164
Other expenses	76,590	87,593	81,462	83,249	91,761
Total expenses	6,77,012	7,50,210	7,09,194	7,47,542	8,23,008
<b>EBITDA</b>	<b>1,20,615</b>	<b>1,09,993</b>	<b>89,448</b>	<b>1,01,938</b>	<b>1,22,978</b>
<b>% Growth</b>	<b>16.5</b>	<b>(8.8)</b>	<b>(18.7)</b>	<b>14.0</b>	<b>20.6</b>
<b>EBITDA margin (%)</b>	<b>15.1</b>	<b>12.8</b>	<b>11.2</b>	<b>12.0</b>	<b>13.0</b>
Other income	20,455	25,610	33,802	37,088	42,222
Interest costs	3,457	758	823	823	823
Depreciation	27,579	30,189	34,190	38,990	43,790
Profit before tax (before exceptional items)	1,10,034	1,04,656	88,237	99,213	1,20,587
Tax	32,816	29,650	20,736	23,315	28,338
<b>Adj PAT</b>	<b>77,218</b>	<b>75,006</b>	<b>67,501</b>	<b>75,898</b>	<b>92,249</b>
<b>% Growth</b>	<b>5.2</b>	<b>(2.9)</b>	<b>(10.0)</b>	<b>12.4</b>	<b>21.5</b>
<b>Adj PAT margin (%)</b>	<b>9.7</b>	<b>8.7</b>	<b>8.5</b>	<b>8.9</b>	<b>9.8</b>
<b>EPS (Rs)</b>	<b>255.7</b>	<b>248.4</b>	<b>223.5</b>	<b>251.3</b>	<b>305.5</b>
<b>% Growth</b>	<b>5.2</b>	<b>(2.9)</b>	<b>(10.0)</b>	<b>12.4</b>	<b>21.5</b>
DPS (Rs)	80.0	80.0	80.0	90.0	100.0
Payout (incl. div. tax) (%)	31.3	32.2	35.8	35.8	32.7

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 14: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	1,510	1,510	1,510	1,510	1,510
Reserves	4,16,063	4,59,905	5,03,246	5,51,964	6,14,014
Net worth	4,17,573	4,61,415	5,04,756	5,53,474	6,15,524
Total debt	1,108	1,496	1,496	1,496	1,496
Deferred tax liability	5,589	5,640	5,640	5,640	5,640
<b>Capital employed</b>	<b>4,24,270</b>	<b>4,68,551</b>	<b>5,11,892</b>	<b>5,60,610</b>	<b>6,22,660</b>
Gross block	2,14,239	2,64,916	3,04,916	3,44,916	3,84,916
Depreciation	80,649	1,10,838	1,45,028	1,84,018	2,27,808
Net block	1,33,590	1,54,078	1,59,888	1,60,898	1,57,108
Capital work-in-progress	21,259	16,001	16,001	16,001	16,001
Investments	3,52,902	3,65,150	3,99,150	4,48,150	5,16,150
Inventories	31,608	33,257	30,877	32,842	36,574
Debtors	14,618	23,104	21,451	22,816	25,408
Cash	711	1,789	900	779	1,886
Loans & advances	32	162	162	162	162
Other current assets	38,981	35,777	37,566	39,444	41,416
Total current assets	85,950	94,089	90,956	96,043	1,05,445
Creditors	1,63,566	1,54,128	1,47,234	1,52,927	1,63,734
Other current liabilities & provisions	5,865	6,639	6,868	7,555	8,311
Total current liabilities	1,69,431	1,60,767	1,54,103	1,60,482	1,72,045
Net current assets	(83,481)	(66,678)	(63,147)	(64,439)	(66,600)
<b>Application of funds</b>	<b>4,24,270</b>	<b>4,68,551</b>	<b>5,11,892</b>	<b>5,60,610</b>	<b>6,22,660</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 13: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
OP/(loss) before tax	93,036	79,804	55,258	62,948	79,188
Depreciation & amortization	27,579	30,189	34,190	38,990	43,790
Other income	20,455	25,610	33,802	37,088	42,222
(Inc.)/dec. in working capital	27,549	(15,725)	(4,420)	1,171	3,267
Direct taxes paid	(31,867)	(29,599)	(20,736)	(23,315)	(28,338)
<b>Cash flow from operations</b>	<b>1,36,752</b>	<b>90,279</b>	<b>98,094</b>	<b>1,16,881</b>	<b>1,40,130</b>
Capital expenditure (-)	(37,013)	(45,419)	(40,000)	(40,000)	(40,000)
<b>Net cash after capex</b>	<b>99,739</b>	<b>44,860</b>	<b>58,094</b>	<b>76,881</b>	<b>1,00,130</b>
Other investing activities	(70,618)	(12,248)	(34,000)	(49,000)	(68,000)
Dividends paid (-)	(24,160)	(24,160)	(24,160)	(27,180)	(30,200)
Inc./(dec.) in total borrowings	(7,185)	(370)	(823)	(823)	(823)
Others	2,804	(7,004)	(0)	0	0
<b>Cash from financial activities</b>	<b>(28,541)</b>	<b>(31,534)</b>	<b>(24,983)</b>	<b>(28,003)</b>	<b>(31,023)</b>
Opening cash balance	131	711	1,789	900	779
Closing cash balance	711	1,789	900	779	1,886
Change in cash balance	580	1,078	(889)	(122)	1,107

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 15: Key ratios

Y/E March	FY18	FY19	FY20E	FY21E	FY22E
<b>Per share (Rs)</b>					
EPS	255.7	248.4	223.5	251.3	305.5
EPS Growth (%)	5.2	(2.9)	(10.0)	12.4	21.5
Cash EPS	347.0	348.3	336.7	380.4	450.5
Book value per share	1,382.7	1,527.9	1,671.4	1,832.7	2,038.2
DPS	80.0	80.0	80.0	90.0	100.0
Payout (incl. div. tax) %	31.3	32.2	35.8	35.8	32.7
<b>Valuation (x)</b>					
P/E	28.9	29.8	33.1	29.4	24.2
Cash P/E	21.3	21.2	21.9	19.4	16.4
EV/EBITDA	15.6	17.0	20.5	17.5	13.9
EV/Sales	2.4	2.2	2.4	2.2	1.9
P/BV	5.3	4.8	4.4	4.0	3.6
Dividend yield (%)	1.1	1.1	1.1	1.2	1.4
<b>Return ratios (%)</b>					
RoCE	26.7	22.5	17.4	17.8	19.5
RoE	19.8	17.1	14.0	14.3	15.8
<b>Profitability ratios (%)</b>					
EBITDA margin	15.1	12.8	11.2	12.0	13.0
PAT margin	9.9	9.0	8.8	9.3	10.1
<b>Turnover ratios</b>					
Debtors (days)	7	10	10	10	10
Inventory (days)	14	14	14	14	14
Creditors (days)	48	41	41	41	41
Asset turnover (x)	2	2	1	1	1
<b>Leverage Ratio</b>					
Debt/equity (x)	0.0	0.0	0.0	0.0	0.0

Source: Company, Nirmal Bang Institutional Equities Research

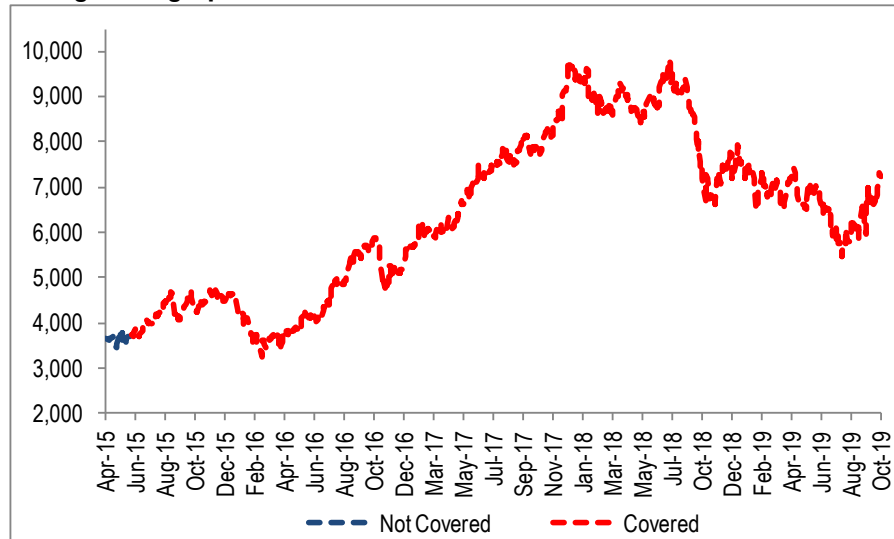


## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 May 2015	Buy	3,693	4,355
9 July 2015	Accumulate	3,948	4,355
9 October 2015	Accumulate	4,353	4,559
28 October 2015	Accumulate	4,497	4,878
11 January 2016	Accumulate	4,272	4,878
29 January 2016	Buy	4,100	4,805
27 April 2016	Buy	3,872	4,479
27 July 2016	Accumulate	4,471	4,694
28 October 2016	Buy	5,860	6,869
27 January 2017	Accumulate	5,803	6,464
03 February 2017	Accumulate	5,990	6,688
28 April 2017	Accumulate	6,374	7,012
28 July 2017	Accumulate	7,600	7,882
30 October 2017	Accumulate	8,114	8,640
29 January 2018	Accumulate	9,300	10,152
30 April 2018	Buy	8,783	10,091
27 July 2018	Buy	9,396	10,783
26 October 2018	Buy	6,723	8,124
28 January 2019	Accumulate	6,513	7,040
29 July 2019	Sell	5,820	4,856
23 September 2019	Sell	6,601	4,909
25 October 2019	Sell	7,390	5,846

\* Coverage shifted to Anish Rankawat wef 29 July 2019

## Rating track graph



## DISCLOSURES

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### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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