

Weak Performance amid slowdown

CMP: Rs 5105

Rating: Neutral

Target Price: Rs 5060

Stock Info

BSE	532500
NSE	MARUTI
Bloomberg	MSIL IN
Reuters	MRTI.NS
Sector	Automobiles
Face Value (Rs)	5
Equity Capital (Rs mn)	1,510
Mkt Cap (Rs bn)	1521
52w H/L (Rs)	7,755 / 4,002
Avg Yearly Vol (in 000')	1193

Shareholding Pattern %

(As on Dec, 2019)

Promoters	56.2
Public & Others	43.8

Stock Performance (%)	3m	6m	12m
Maruti	-28.0	-29.6	-22.8
Sensex	-22.8	-20.2	-13.7

Maruti Vs Sensex



Maruti Suzuki (MSIL) Q4FY20 numbers failed to perform as sales tumbled after the coronavirus pandemic stalled operations, disrupting a nascent recovery from the worst auto slowdown in decades. The company's revenue fell 15.2% YoY to Rs 1,81987mn, against Rs 2,14,594 mn in Q4FY19. That mostly came on the back of a 16 percent drop in sales during the quarter. The novel virus outbreak had forced the company to cut production by 5.38 percent in February when India still had a handful of cases. Whereas Net profit declined 28% YoY to Rs 12,917mn in Q4FY20. That compares with the Rs 17,956 mn in Q4FY19.

Concall highlights

- The Management stated that it will take at least next 1-2 months to get the clear picture of demand sentiment. Currently Demand and affordability (Low income level) both are under stress.
- Company has stepped up its efforts in going 'hyper local' and reaching out to customers; digitalizing more and more potential touchpoints during the sales process.
- Share of diesel for industry fell below 20% in Q4FY20; Maruti's share of diesel was 7%.
- 38.5% of demand comes from rural; customer break up in terms of salaried, business, self-employed and others is 45-46%, 33-35%, 11-15% and 8-9% respectively.
- There are some initial indications that trends are moving towards smaller cars, but too early to render them definitive.
- Increased political / economic uncertainty, and rising protectionism impacted exports.
- Weak demand kept discounts elevated and limited company's ability to pass on higher input prices to customers.
- Some of the suppliers continue to fall under some restriction or the other.
- Manesar started production, Gurgaon should start soon; though Gujarat plant production remains doubtful due to coronavirus.

Outlook and valuation

We believe MSIL is likely to see market share erosion due to ongoing COVID pandemic with both demand and supply remaining uncertain. We continue to remain optimistic on stock owing to weak demand due to COVID-19 and farm incomes are expected to be better with high rabi yield, higher MSPs and normal monsoon expectations; Concerns around diesel addressed through product interventions including hybrid and CNG; and Dealer financials remains healthy, to aid retailers as and when demand picks up. Given the near term uncertainty we lower our FY21 estimates and as Maruti's position as industry leader and potential high growth beyond FY21, we value Maruti at 26x FY22 EPS with TP of Rs 5060. We downgrade our rating to Neutral from Hold earlier.

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	8,60,203	1,09,993	75,007	248.3	12.8	17.1	20.6
FY20	7,56,106	73,026	56,506	187.1	9.7	11.9	27.3
FY21E	6,86,968	66,849	48,614	160.9	9.7	9.8	31.7
FY22E	7,46,660	75,764	58,786	194.6	10.1	11.3	26.2

Q4FY20 result Snapshot

Standalone (INRm)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Net Sales	1,81,987	2,14,594	-15.2	2,07,068	-12.1
- Raw Material	1,27,914	1,54,236	-17.1	1,50,130	-14.8
(% of Net Sales)	70	72	-158.6	72.5	-221.5
- Staff Expenditure	8,194	8,169	0.3	8,670.0	-5.5
(% of Net Sales)	5	4	70	4.2	31.5
- Other Expenditure	30,415	29,555	2.9	27,247.0	11.6
(% of Net Sales)	17	14	294	13.2	355.4
Total Expenditure	1,66,523	1,91,960	-13.3	1,86,047.0	-10.5
EBITDA	15,464	22,634	-31.7	21,021.0	-26.4
EBITDA Margin (%)	8.5	10.5	-205bps	10.2	-165bps
Depreciation	8,230	8,102	1.6	8,580.0	-4.1
EBIT	7,234	14,532	-50.2	12,441.0	-41.9
Interest	283	88	221.6	217.0	30.4
Other Income	8,804	8,677	1.5	7,840.0	12.3
PBT	15,755	23,121	-31.9	20,064.0	-21.5
Tax	2,838	5,165	-45.1	4,416.0	-35.7
Tax Rate (%)	18	22	-433bps	22.0	-400bps
Adjusted PAT	12,917	17,956	-28.1	15,648.0	-17.5
Exceptional Items	0	0	NA	0.0	NA
Reported PAT	12,917	17,956	-28.1	15,648.0	-17.5
Reported EPS (INR)	43	59	-28.1	51.8	-17.5
Volumes (In Nos)	3,85,025	4,58,479	-16.0	4,37,361.0	-12.0
Net Realisation (INR)	4,72,663	4,68,056	1.0	4,73,448.7	-0.2
EBITDA / Vehicle (INR)	40,164	49,368	-18.6	48,063.3	-16.4

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Volumes (In Nos)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Domestic	3,60,428	4,28,863	-16.0	4,13,698	-12.9
A: Mini	69,372	74,985	-7.5	78,726	-11.9
A: Compact + Super compact	1,94,687	2,20,733	-11.8	2,18,780	-11.0
A: Mid-Size + Exec	5,242	9,690	-45.9	5,605	-6.5
Total cars	2,69,301	3,05,408	-11.8	3,03,111	-11.2
B: UVs	50,968	69,827	-27.0	70,120	-27.3
C: Vans	40,159	53,628	-25.1	40,467	-0.8
Export	24,597	29,616	-16.9	23,663	3.9
Total Volumes	3,85,025	4,58,479	-16.0	4,37,361	-12.0

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Exhibit 1: Quarterly net sales and growth trend

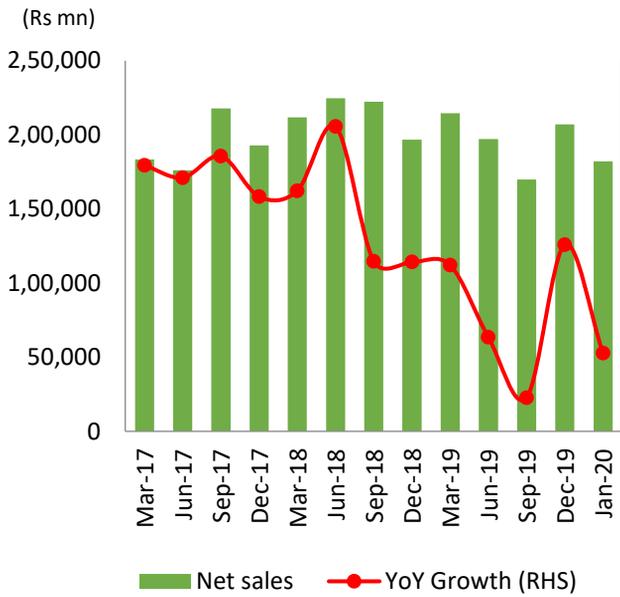


Exhibit 2: realizations and growth trend

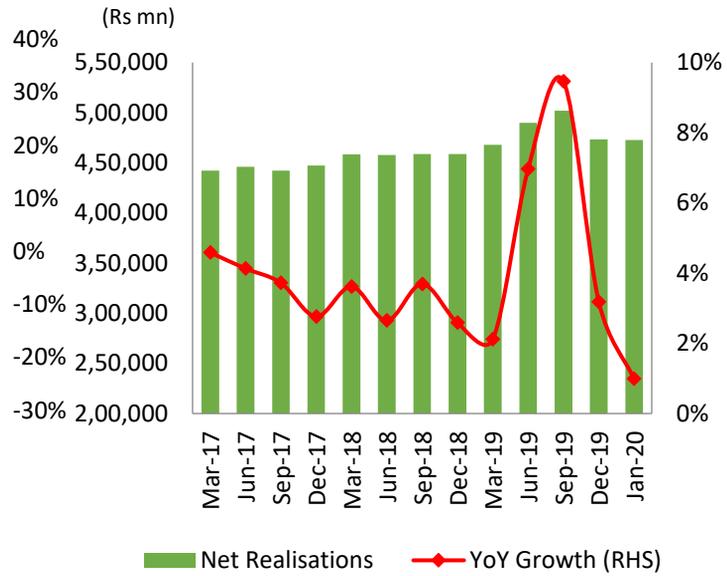


Exhibit 3: Quarterly discount and % of sales trend

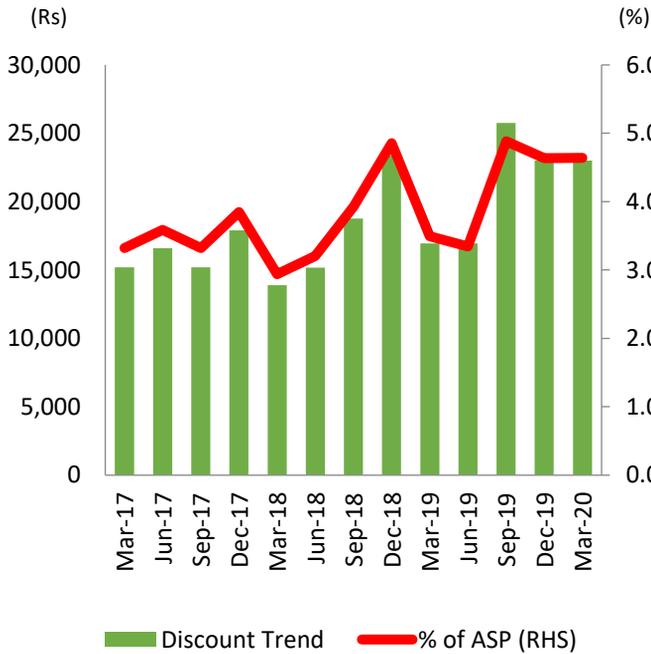
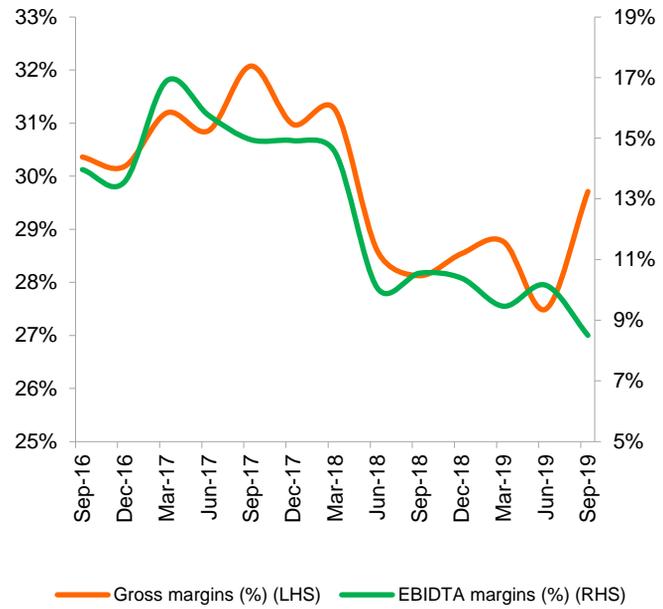


Exhibit 4: Quarterly gross and EBITDA margins trend



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Profit & Loss Statement				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Net sales	8,60,203	7,56,106	6,86,968	7,46,660
Growth, %	7	-14	-10	9
RM expenses	-5,95,485	-5,31,566	-5,01,486	-5,45,062
Employee expenses	-32,549	-33,839	-35,193	-36,952
Other expenses	-1,23,397	-1,18,892	-83,440	-88,882
EBITDA (Core)	1,09,993	73,026	66,849	75,764
Growth, %	-9	-34	-8	13
Margin, %	12.8	9.7	9.7	10.1
Depreciation	-30,189	-35,257	-36,176	-38,776
EBIT	79,805	37,769	30,672	36,987
Growth, %	-14	-53	-19	21
Margin, %	9.3	5.0	4.5	5.0
Interest paid	-758	-1,329	-573	-622
Other Income	25,610	34,208	41,392	50,084
Non-recurring Items	0	0	0	0
Pre-tax profit	1,04,657	70,648	71,491	86,450
Tax provided	-29,650	-14,142	-22,877	-27,664
Profit after tax	75,007	56,506	48,614	58,786
Others (Minorities, Associates)	-	-	-	-
Net Profit	75,007	56,506	48,614	58,786
Growth, %	-3	-25	-14	21
Net Profit (adjusted)	75,007	56,506	48,614	58,786

Balance Sheet				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Cash & bank	1,789	211	21,001	33,952
Marketable securities cost	3,49,878	3,49,404	3,99,404	4,29,404
Debtors	23,104	21,270	15,266	16,592
Inventory	33,257	32,149	30,646	33,309
Loans & advances	162	171	174	178
Other current assets	14,851	18,287	18,287	18,287
Total current assets	73,163	72,088	85,375	1,02,319
Investments	15,272	15,272	15,272	15,272
Gross fixed assets	4,11,631	4,50,980	4,68,454	5,00,954
Less: Depreciation	-2,57,553	-2,92,810	-3,28,986	-3,67,763
Add: Capital WIP	16,001	13,374	15,000	16,000
Net fixed assets	1,54,078	1,58,170	1,39,468	1,33,192
Total assets	6,29,318	6,25,521	6,54,519	6,96,187
Current liabilities	1,33,763	1,05,639	1,14,279	1,21,542
Provisions	6,639	7,312	7,312	7,312
Total current liabilities	1,40,402	1,12,951	1,21,591	1,28,854
Non-current liabilities	26,005	27,137	27,137	27,137
Total liabilities	1,66,407	1,40,088	1,48,728	1,55,991
Paid-up capital	1,510	1,510	1,510	1,510
Reserves & surplus	4,59,905	4,82,860	5,03,600	5,38,108
Shareholders' equity	4,61,415	4,84,370	5,05,110	5,39,618
Total equity & liabilities	6,29,318	6,25,521	6,54,519	6,96,187

Cash Flow				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Pre-tax profit	1,04,657	70,648	71,491	86,450
Depreciation	30,189	35,257	36,176	38,776
Chg in working capital	-15,164	-27,954	16,143	3,270
Total tax paid	-29,323	-13,748	-22,877	-27,664
CFO	62,280	31,324	60,115	51,370
Capital expenditure	-45,419	-36,722	-19,100	-33,500
Chg in marketable securities	-40,000	-40,000	-40,000	-40,000
Chg in investments	27,752	40,474	-10,000	10,000
CFI	-32,057	-2,040	-27,709	-13,416
Free cash flow	-23,138	-45,398	1,014	-22,130
Debt raised/(repaid)	388	-433	-383	-102
Dividend (incl. tax)	-28,455	-20,003	-20,078	-24,279
CFF	-28,825	-21,765	-21,033	-25,002
Net chg in cash	1,398	7,519	11,373	12,951
Opening cash balance	711	1,789	211	21,001
Closing cash balance	1,789	211	21,001	33,952

Ratios				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
EPS (INR)	248	187	161	195
PE (x)	20.6	27.3	31.7	26.2
Price/Book (x)	3.3	3.2	3.1	2.9
EV/EBITDA (x)	10.8	16.3	16.8	14.2
EV/Net sales (x)	1.4	1.7	1.6	1.4
RoE (%)	17	12	10	11
RoCE (%)	23	14	14	16
Fixed Asset turnover (x)	2.1	1.7	1.5	1.5
Dividend Yield (%)	1.6	1.1	1.1	1.3
Receivable (days)	10	11	9	9
Inventory (days)	16	17	18	18
Payable (days)	47	40	49	49
Revenue Growth (%)	7	-14	-10	9
EBITDA Growth (%)	-9	-34	-8	13
EPS Growth, %	-7	-25	-14	21
Net D/E ratio (x)	(0.8)	(0.7)	(0.8)	(0.9)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880