

# Retail Equity Research

## Maruti Suzuki India Limited

Automobiles

BSE CODE: 532500

NSE CODE: MARUTI

Bloomberg CODE: MSIL:IN

SENSEX: 40,052

**HOLD**

12M Investment period Rating as per Large Cap  
CMP Rs 7,554 TARGET Rs 8,218 RETURN 9% ↑  
(Closing: 30-10-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

### Weak quarter amid tepid demand scenario

Maruti Suzuki India Limited (MSIL) is an automobile manufacturer with a 56.2% ownership in Japanese car and motorcycle manufacturer Suzuki Motor Corporation. It is one of the largest passenger car companies and accounts for over 50% of the domestic car market.

- Revenue fell 25.2% YoY in Q2FY20 primarily on weaker sales volumes across both domestic (-31.4% YoY) and exports market (-12.4%).
- EBITDA margin contracted 590bps YoY to 10.0% due to substantial increase in material and employee costs.
- PAT declined to Rs. 1,359cr (-39.4% YoY) only partially offset by positive impact of tax cuts this quarter.
- Given challenging demand outlook, we maintain our HOLD rating on the stock with a target price of Rs. 8,218 based on 29x FY21E adj. EPS.

### Topline impacted by weaker volumes

Company recorded steep decline in Q2FY20 revenue (-25.2% YoY to Rs. 16,120cr), mainly impacted by lower volumes (-30.2% YoY to 338k units). Weakness in sales volumes was witnessed across both domestic (-31.4% YoY to 313k units) and exports markets (-12.4% to ~26k units). Domestic volumes were largely impacted by lower sales for Mini + Compact vehicles (-35.8% YoY to 211k units) and Compact vehicles (-23.1% YoY to 169k units). Overall car sales were adversely affected by several factors including implementation of more stringent safety and emission norms, increase in vehicle insurance expenses and hike in taxes in many states. Additionally, lower availability of finance and increased down payments made owning a vehicle more expensive.

### Profitability declines despite corporate tax cuts

Company's EBITDA margin decreased ~590 bps YoY to 10.0% in Q2FY20 driven by higher materials and employee costs. Resultantly, EBITDA declined 53.2% YoY to Rs. 1,606cr. Management expects favorable commodity prices to have a positive impact on materials cost in the second half of the year. Net profit came in at Rs. 1,359cr (-39.4%) further impacted by higher depreciation (due to accelerated depreciation of Rs. 160cr in H1FY20 on some diesel engine plants). This is partially offset by tax cuts during the quarter and slightly higher fair value gains on invested surplus.

### Key concall highlights

- Maruti Suzuki launched a Mini Sports utility vehicle S-Presso on Sept 30<sup>th</sup> and within a month of its launch, the company received ~16,5k bookings.
- With shift in consumer preference, sales of petrol vehicle rose 3.3% YoY, with petrol vehicles now contributing 77.5% to total sales.
- Company's 8 top-selling models are BS VI compliant

### Valuation

Automobile industry continues to have a sluggish demand outlook. Due to the existing demand slump in the industry, high cost of vehicle ownership and uncertain macroeconomic factors, there was a dip in the company's performance during the quarter. However, we expect the situation to improve by FY21 owing to new launches, better economic conditions and thereby forecast earnings to grow at 6.8% CAGR over FY19-21. We maintain our HOLD rating on the stock with a revised target price of Rs. 8,218 based on 29x FY21 adj. EPS.

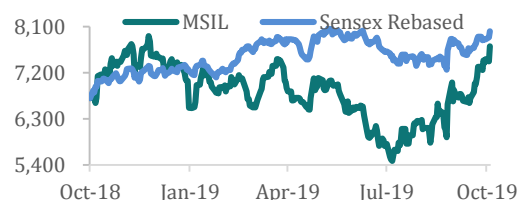
### Company Data

Market Cap (cr)	Rs. 233,173
Enterprise Value (cr)	Rs. 232,727
Outstanding Shares (cr)	30.2
Free Float	44.0%
Dividend Yield	1.0%
52 week high	Rs. 7,929
52 week low	Rs. 5,447
6m average volume	86,188
Beta	1.4
Face value	Rs. 5

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	56.2	56.2	56.2
FII's	22.3	23.2	23.4
MFs/Insti	13.4	13.5	15.0
Public	4.5	3.8	3.6
Others	3.6	3.3	1.7
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	38.9%	13.0%	13.5%
Absolute Sensex	5.7%	2.0%	16.9%
Relative Return*	33.2%	11.0%	-3.4%

\*over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Sales	83,027	87,178	91,537
Growth (%)	6.3	5.0	5.0
EBITDA	10,999	10,376	11,985
EBITDA Margin (%)	13.2	11.9	13.1
Adj. PAT	7,501	7,503	8,561
Growth (%)	-2.9	0.0	14.1
Adj. EPS	248.3	248.4	283.4
Growth (%)	-2.9	0.0	14.1
P/E	26.6	31.1	27.2
P/B	4.3	4.6	4.1
EV/EBITDA	18.1	22.4	19.4
ROE (%)	16.3	14.6	15.0
D/E	0.0	0.0	0.0

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	16,120	21,552	(25.2)	18,735	(14.0)	34,856	43,363	(19.6)
<b>EBITDA</b>	<b>1,606</b>	<b>3,431</b>	<b>(53.2)</b>	<b>2,048</b>	<b>(21.6)</b>	<b>3,654</b>	<b>6,782</b>	<b>(46.1)</b>
EBITDA margins	10.0	15.9	(590bps)	10.9	(90bps)	10.5	15.6	(510bps)
Depreciation	926	721	28.4	919	0.8	1,845	1,441	28.0
<b>EBIT</b>	<b>680</b>	<b>2,710</b>	<b>(74.9)</b>	<b>1,129</b>	<b>(39.8)</b>	<b>1,809</b>	<b>5,341</b>	<b>(66.1)</b>
Interest	28	26	9.7	55	(48.4)	83	46	78.7
Other Income	920	527	74.7	836	10.0	1,756	798	120.0
Exceptional Items	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>1,572</b>	<b>3,211</b>	<b>(51.0)</b>	<b>1,911</b>	<b>(17.7)</b>	<b>3,483</b>	<b>6,093</b>	<b>(42.8)</b>
Tax	213	971	(78.0)	475	(55.1)	689	1,878	(63.3)
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>1,359</b>	<b>2,240</b>	<b>(39.4)</b>	<b>1,436</b>	<b>(5.4)</b>	<b>2,794</b>	<b>4,216</b>	<b>(33.7)</b>
Adjustments	-	-	-	-	-	-	-	-
<b>Adjusted PAT</b>	<b>1,359</b>	<b>2,240</b>	<b>(39.4)</b>	<b>1,436</b>	<b>(5.4)</b>	<b>2,794</b>	<b>4,216</b>	<b>(33.7)</b>
No. of shares	30.2	30.2	-	30.2	-	30.2	30.2	-
<b>EPS (Rs)</b>	<b>45.0</b>	<b>74.2</b>	<b>(39.4)</b>	<b>47.5</b>	<b>(5.4)</b>	<b>92.5</b>	<b>139.6</b>	<b>(33.7)</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	88,423	97,266	87,178	91,537	(1.4)	(5.9)
EBITDA	10,475	12,522	10,376	11,985	(0.9)	(4.3)
Margins (%)	11.8	12.9	11.9	13.1	10bps	20bps
Adj. PAT	7,085	8,404	7,503	8,561	5.9	1.9
EPS	234.5	278.2	248.4	283.4	5.9	1.9

## PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Revenue</b>	<b>66,909</b>	<b>78,105</b>	<b>83,027</b>	<b>87,178</b>	<b>91,537</b>
% change	18.7	16.7	6.3	5.0	5.0
<b>EBITDA</b>	<b>10,353</b>	<b>12,062</b>	<b>10,999</b>	<b>10,376</b>	<b>11,985</b>
% change	15.3	16.5	(8.8)	(5.7)	15.5
Depreciation	2,602	2,758	3,019	3,402	3,595
<b>EBIT</b>	<b>7,751</b>	<b>9,304</b>	<b>7,980</b>	<b>6,974</b>	<b>8,390</b>
Interest	89	346	76	190	227
Other Income	2,280	2,046	2,561	3,000	3,000
<b>PBT</b>	<b>9,941</b>	<b>11,003</b>	<b>10,466</b>	<b>9,784</b>	<b>11,163</b>
% change	52.1	10.7	(4.9)	(6.5)	14.1
Tax	2,604	3,282	2,965	2,281	2,602
Tax Rate (%)	26.2	29.8	28.3	23.3	23.3
<b>Reported PAT</b>	<b>7,338</b>	<b>7,722</b>	<b>7,501</b>	<b>7,503</b>	<b>8,561</b>
Adj*	-	-	-	-	-
<b>Adj PAT</b>	<b>7,338</b>	<b>7,722</b>	<b>7,501</b>	<b>7,503</b>	<b>8,561</b>
% change	60.5	5.2	(2.9)	0.0	14.1
No. of shares (cr)	30.2	30.2	30.2	30.2	30.2
<b>Adj EPS (Rs)</b>	<b>242.9</b>	<b>255.6</b>	<b>248.3</b>	<b>248.4</b>	<b>283.4</b>
% change	60.5	5.2	(2.9)	0.0	14.1
DPS (Rs)	75.0	80.0	80.0	80.0	85.6
CEPS (Rs)	329.0	346.9	348.2	361.0	402.4

## CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Net inc. + Depn.</b>	<b>9,940</b>	<b>10,480</b>	<b>10,520</b>	<b>10,905</b>	<b>12,155</b>
Non-cash adj.	(627)	(662)	386	319	312
Changes in W.C	972	1,967	(1,878)	(181)	154
<b>C.F. Operation</b>	<b>10,285</b>	<b>11,785</b>	<b>9,028</b>	<b>11,042</b>	<b>12,621</b>
Capital exp.	(3,372)	(3,865)	(4,276)	(4,366)	(4,585)
Change in inv.	(5,858)	(4,505)	(1,225)	(3,652)	(4,986)
Other invest.CF	48	88	-	-	(0)
<b>C.F - Investment</b>	<b>(9,182)</b>	<b>(8,282)</b>	<b>(5,501)</b>	<b>(8,018)</b>	<b>(9,571)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	253	(373)	39	-	-
Dividends paid	(1,057)	(2,266)	(2,417)	(2,417)	(2,586)
Other finance.CF	(325)	(808)	(76)	(190)	(227)
<b>C.F - Finance</b>	<b>(1,129)</b>	<b>(3,446)</b>	<b>(2,454)</b>	<b>(2,608)</b>	<b>(2,813)</b>
Chg. in cash	(26)	57	1,073	416	237
Closing cash	13	71	179	595	832

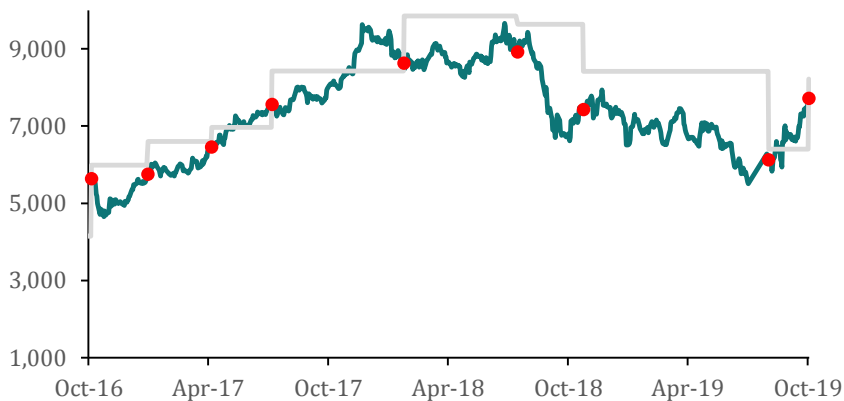
## BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	13	71	179	595	832
Accounts Receivable	1,199	1,462	2,310	2,615	2,655
Inventories	3,262	3,161	3,326	3,981	3,987
Other Cur. Assets	4,135	3,228	6,547	7,077	7,936
Investments	26,215	34,073	31,470	34,616	38,770
Gross Fixed Assets	18,067	20,784	25,061	29,427	34,012
Net Fixed Assets	12,916	13,047	14,957	15,808	16,681
CWIP	1,252	2,126	1,600	1,691	1,785
Intangible Assets	373	312	451	474	497
Def. Tax (Net)	-	-	-	-	-
Other Assets	1,627	1,891	2,093	2,125	2,211
<b>Total Assets</b>	<b>50,993</b>	<b>59,370</b>	<b>62,932</b>	<b>68,983</b>	<b>75,354</b>
Current Liabilities	12,748	15,331	14,001	14,906	15,236
Provisions	22	27	40	43	48
Debt Funds	484	111	150	150	150
Other Liabilities	1,569	2,144	2,601	2,657	2,719
Equity Capital	151	151	151	151	151
Reserves & Surplus	36,020	41,606	45,991	51,076	57,051
Shareholder's Fund	36,171	41,757	46,142	51,227	57,202
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>50,993</b>	<b>59,370</b>	<b>62,932</b>	<b>68,983</b>	<b>75,354</b>
<b>BVPS (Rs)</b>	<b>1,197</b>	<b>1,382</b>	<b>1,527</b>	<b>1,696</b>	<b>1,894</b>

## RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	15.5	15.4	13.2	11.9	13.1
EBIT margin (%)	11.6	11.9	9.6	8.0	9.2
Net profit mgn.(%)	11.0	9.9	9.0	8.6	9.4
ROE (%)	20.3	18.5	16.3	14.6	15.0
ROCE (%)	21.1	22.2	17.2	13.6	14.6
<b>W.C &amp; Liquidity</b>					
Receivables (days)	6.5	6.8	10.2	11.0	10.6
Inventory (days)	25.5	21.0	20.1	23.7	22.6
Payables (days)	65.4	69.7	58.4	62.1	60.2
Current ratio (x)	0.7	0.5	0.9	0.9	1.0
Quick ratio (x)	0.2	0.2	0.5	0.6	0.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.9	4.0	3.6	3.2	2.9
Total asset T.O (x)	1.5	1.4	1.4	1.3	1.3
Int. covge. ratio (x)	86.7	26.9	105.3	36.6	36.9
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	2.6	3.4	2.4	2.7	2.5
EV/EBITDA (x)	17.1	21.8	18.1	22.4	19.4
P/E (x)	24.1	34.1	26.6	31.1	27.2
P/BV (x)	4.9	6.3	4.3	4.6	4.1

## Recommendation Summary



Dates	Rating	Target
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29-Apr-16	HOLD	4,152
2-Nov-16	HOLD	5,992
27-Jan-17	BUY	6,600
4-May-17	HOLD	6,967
4-Aug-17	HOLD	8,428
21-Feb-18	BUY	9,849
13-Aug-18	HOLD	9,633
21-Nov-18	BUY	8,419
30-Aug-19	HOLD	6,400
31-Oct-19	HOLD	8,218

## Investment Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as 'Buy' and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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