

July 26, 2019

## Q1FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	6,842		7,100	
Sales (Rs. m)	902,219	1,010,767	932,745	1,036,707
% Chng.	(3.3)	(2.5)		
EBITDA (Rs. m)	105,102	123,684	114,318	136,563
% Chng.	(8.1)	(9.4)		
EPS (Rs.)	243.1	290.5	261.0	308.7
% Chng.	(6.9)	(5.9)		

### Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	798	860	902	1,011
EBITDA (Rs. bn)	123	108	105	124
Margin (%)	15.4	12.6	11.6	12.2
PAT (Rs. bn)	77	75	73	88
EPS (Rs.)	255.6	248.3	243.1	290.5
Gr. (%)	5.1	(2.9)	(2.1)	19.5
DPS (Rs.)	80.0	80.0	125.0	140.0
Yield (%)	1.4	1.4	2.2	2.4
RoE (%)	19.8	17.1	15.4	17.3
RoCE (%)	24.3	17.7	15.3	17.5
EV/Sales (x)	2.2	2.0	1.9	1.7
EV/EBITDA (x)	14.1	16.1	16.3	13.6
PE (x)	22.7	23.4	23.9	20.0
P/BV (x)	4.2	3.8	3.6	3.3

### Key Data

MRTI.BO | MSIL IN

52-W High / Low	Rs.9,833 / Rs.5,685
Sensex / Nifty	37,883 / 11,284
Market Cap	Rs.1,754bn/ \$ 25,427m
Shares Outstanding	302m
3M Avg. Daily Value	Rs.11871.24m

### Shareholding Pattern (%)

Promoter's	56.21
Foreign	23.16
Domestic Institution	13.45
Public & Others	7.18
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(10.4)	(10.9)	(38.2)
Relative	(6.4)	(15.2)	(39.7)

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## Valuation correction factors in challenges

Maruti Suzuki's 1QFY20 results were operationally in-line with margins came in at 10.4%. However, higher other income led to a beat in PAT at Rs14.4bn (PLe: Rs12bn). While we expect demand headwinds to continue to impact domestic volumes (we estimate flat overall volumes in FY20E), we believe MSIL is well placed amongst OEMs in light of, a) structural shift towards Petrol cars especially in lower CC segments, b) with ~78% of its portfolio is skewed to Petrol making it less prone to cost increase challenges in BS6 and c) management's comments on evaluating options in 1.5ltr diesel engines. For FY20E, we estimate volumes to be flat and EBITDA margins to be at 11.6% (-100bp YoY). The benefit of softening RM price and forex benefit to be partially offset by higher spends in run up to BS6. We believe, well spread out monsoon would be a single major force in escalating buying sentiments. We value the stock at 23x Mar21E EPS (15% discount to 5 year LPA). We continue to maintain our BUY rating with a target price of Rs6,842.

- Revenue in-line:** Overall revenue for the quarter dipped 12% YoY / 8% QoQ to Rs197.2bn (PLe: Rs191bn), where volumes plummeted 18% YoY / 12% QoQ over Q1FY20 but realisations improved 7% YoY / 4.6% QoQ and other operating income surged 52% YoY. Export revenues for Q1FY20 stood at Rs14bn.
- OPM in-line at 10.4%:** Absolute EBITDA declined 39% YoY / 10.5% QoQ to Rs20.5bn with EBITDA margin at 10.4% (PLe: 10.5%), lower 450bps YoY / 10bps QoQ. Gross margin was lower 250bps YoY (inching up 40bps QoQ) while staff costs as well as other expenses as a % of sales were higher 100bps YoY and 120bps YoY respectively.
- Other income drive PAT beat by 20% v/s PLe:** With higher than expected non-operating income (up 207% YoY) and lower tax rate at 24.9% (v/s 31.5% in Q1FY19 & PLe of 27.5%), net profit for MSIL stood at Rs14.4bn, lower 27% YoY / 20% QoQ (PLe: Rs12bn).
- Key takeaways from the con-call: (1)** Sequentially, margins were benefitted by RM cost relief & favorable forex movement to the tune of 40bps, offset by adverse impact of BS VI cost increase, higher discounts & unfavorable mix to the tune of ~50bps, 40bps & 20bps, respectively. **(2)** Retails down ~17% YoY in Q1FY20 led by subdued demand environment in both Urban and rural areas (17% each). Dealer inventory level currently slightly over 1 month. **(3)** MSIL is evaluating BS VI compliance for their 1.5L diesel engine. No timeline given though. **(4)** Petrol share for MSIL at 78% in Q1FY20 v/s 72% in Q1FY19 (industry share rose to 66%). CNG models are being accepted well with cab aggregators, now forming ~6% of revenue. **(5)** Average discounts over Q1FY20 at Rs16,941/unit (up ~12% YoY/QoQ). **(6)** Royalty rate for the quarter stood at 5.2% of sales v/s 5% over Q4FY19. **(7)** SMG volumes for the quarter stood at 96K units (flat QoQ; 80% utilization).

**Exhibit 1: Q1FY20 Result Overview (Rs m)**

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
<b>Net Revenues</b>	<b>197,198</b>	<b>224,594</b>	<b>(8.1)</b>	<b>214,594</b>	<b>902,219</b>	<b>858,203</b>	<b>5.1</b>
Raw Materials	140,913	155,020	(9.1)	154,236	639,231	602,542	6.1
<i>% of Net Sales</i>	<i>71.5</i>	<i>69.0</i>	<i>2.4</i>	<i>71.9</i>	<i>70.9</i>	<i>70.2</i>	
Personnel	8,591	7,652	12.3	8,169	36,455	32,549	12.0
<i>% of Net Sales</i>	<i>4.4</i>	<i>3.4</i>		<i>3.8</i>	<i>4.0</i>	<i>3.8</i>	
Manufacturing & Other Exp	27,216	28,411	(4.2)	29,555	121,432	115,343	5.3
<i>% of Net Sales</i>	<i>13.8</i>	<i>12.6</i>		<i>13.8</i>	<i>13.5</i>	<i>13.4</i>	
Total Expenditure	176,720	191,083	(7.5)	191,960	797,117	750,434	6.2
<b>EBITDA</b>	<b>20,478</b>	<b>33,511</b>	<b>(38.9)</b>	<b>22,634</b>	<b>105,102</b>	<b>107,769</b>	<b>(2.5)</b>
<i>EBITDA Margin (%)</i>	<i>10.4</i>	<i>14.9</i>		<i>10.5</i>	<i>11.6</i>	<i>12.6</i>	
Depreciation	9,186	7,198	27.6	8,102	32,221	30,189	6.7
<b>EBIT</b>	<b>11,292</b>	<b>26,313</b>	<b>(57.1)</b>	<b>14,532</b>	<b>72,881</b>	<b>77,580</b>	<b>(6.1)</b>
Interest Expenses	547	207	164.3	88	800	758	5.5
Non-operating income	8,364	2,718	207.7	8,677	30,207	25,834	16.9
<b>PBT</b>	<b>19,109</b>	<b>28,824</b>	<b>(33.7)</b>	<b>23,121</b>	<b>102,288</b>	<b>102,656</b>	<b>(0.4)</b>
Tax-Total	4,754	9,071	(47.6)	5,165	28,845	29,650	(2.7)
<i>Tax Rate (%) - Total</i>	<i>24.9</i>	<i>31.5</i>	<i>(20.9)</i>	<i>22.3</i>	<i>28.2</i>	<i>28.9</i>	<i>(2.4)</i>
<b>Reported PAT</b>	<b>14,355</b>	<b>19,753</b>	<b>(27.3)</b>	<b>17,956</b>	<b>73,443</b>	<b>73,006</b>	<b>0.6</b>
<b>Adj. PAT</b>	<b>14,355</b>	<b>19,753</b>	<b>(27.3)</b>	<b>17,956</b>	<b>73,443</b>	<b>73,006</b>	<b>0.6</b>

Source: Company, PL

**Exhibit 2: Operating Metrics**

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
<b>Car Sales Volume (nos)</b>	<b>402,594</b>	<b>490,479</b>	<b>(17.9)</b>	<b>458,478</b>	<b>1,862,912</b>	<b>1,862,448</b>	<b>0.0</b>
Net Realisation/Vehicle	489,819	457,907	7.0	468,057	484,306	460,793	5.1
Material cost / vehicle	350,013	316,058	10.7	336,409	343,135	323,522	6.1
Gross Profit / vehicle	139,806	141,849	(1.4)	131,649	141,171	137,271	2.8
Employee cost /vehicle	21,339	15,601	36.8	17,818	19,569	17,476	12.0
Other expenses / vehicle	67,602	57,925	16.7	64,463	65,184	61,931	5.3
EBITDA/vehicle	50,865	68,323	(25.6)	49,368	56,418	57,864	(2.5)
Net Profit/vehicle	35,656	40,273	(11.5)	39,164	39,424	39,199	0.6

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Net Revenues</b>	<b>797,627</b>	<b>860,203</b>	<b>902,219</b>	<b>1,010,767</b>
YoY gr. (%)	17.2	7.8	4.9	12.0
Cost of Goods Sold	549,750	602,542	639,231	714,172
Gross Profit	247,877	257,661	262,988	296,595
Margin (%)	31.1	30.0	29.1	29.3
Employee Cost	28,338	32,549	36,455	38,278
Other Expenses	96,417	117,119	121,432	134,633
<b>EBITDA</b>	<b>123,122</b>	<b>107,993</b>	<b>105,102</b>	<b>123,684</b>
YoY gr. (%)	18.9	(12.3)	(2.7)	17.7
Margin (%)	15.4	12.6	11.6	12.2
Depreciation and Amortization	27,579	30,189	32,221	34,592
<b>EBIT</b>	<b>95,543</b>	<b>77,804</b>	<b>72,881</b>	<b>89,092</b>
Margin (%)	12.0	9.0	8.1	8.8
Net Interest	3,457	758	800	750
Other Income	20,455	25,610	30,207	33,882
<b>Profit Before Tax</b>	<b>110,034</b>	<b>104,656</b>	<b>102,288</b>	<b>122,225</b>
Margin (%)	13.8	12.2	11.3	12.1
Total Tax	32,816	29,650	28,845	34,467
Effective tax rate (%)	29.8	28.3	28.2	28.2
<b>Profit after tax</b>	<b>77,218</b>	<b>75,006</b>	<b>73,443</b>	<b>87,757</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>77,218</b>	<b>75,006</b>	<b>73,443</b>	<b>87,757</b>
YoY gr. (%)	-	-	-	-
Margin (%)	9.7	8.7	8.1	8.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>77,218</b>	<b>75,006</b>	<b>73,443</b>	<b>87,757</b>
YoY gr. (%)	5.1	(2.9)	(2.1)	19.5
Margin (%)	9.7	8.7	8.1	8.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	77,218	75,006	73,443	87,757
<b>Equity Shares O/s (m)</b>	<b>302</b>	<b>302</b>	<b>302</b>	<b>302</b>
<b>EPS (Rs)</b>	<b>255.6</b>	<b>248.3</b>	<b>243.1</b>	<b>290.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>214,239</b>	<b>264,916</b>	<b>320,917</b>	<b>370,917</b>
Tangibles	214,239	264,916	320,917	370,917
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>80,649</b>	<b>110,838</b>	<b>143,059</b>	<b>177,651</b>
Tangibles	80,649	110,838	143,059	177,651
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>133,590</b>	<b>154,078</b>	<b>177,858</b>	<b>193,266</b>
Tangibles	133,590	154,078	177,858	193,266
Intangibles	-	-	-	-
Capital Work In Progress	21,259	16,001	10,000	10,000
Goodwill	-	-	-	-
Non-Current Investments	340,820	353,068	353,068	353,068
Net Deferred tax assets	(5,589)	(5,640)	(5,640)	(5,640)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	12,082	12,082	12,082	12,082
Inventories	31,608	33,257	39,549	44,308
Trade receivables	14,618	23,104	17,303	19,385
Cash & Bank Balance	711	1,789	33,420	63,729
Other Current Assets	32,026	26,539	26,539	26,539
<b>Total Assets</b>	<b>589,592</b>	<b>625,044</b>	<b>674,945</b>	<b>727,503</b>
<b>Equity</b>				
Equity Share Capital	1,510	1,510	1,510	1,510
Other Equity	416,063	459,905	487,960	524,883
<b>Total Network</b>	<b>417,573</b>	<b>461,415</b>	<b>489,470</b>	<b>526,394</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,108	1,496	1,496	1,496
Trade payables	104,970	96,330	116,176	130,154
Other current liabilities	60,352	60,163	62,162	63,820
<b>Total Equity &amp; Liabilities</b>	<b>589,592</b>	<b>625,044</b>	<b>674,945</b>	<b>727,503</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	110,034	104,656	102,288	122,225
Add. Depreciation	27,579	30,189	32,221	34,592
Add. Interest	3,457	758	800	750
Less Financial Other Income	20,455	25,610	30,207	33,882
Add. Other	(20,728)	(25,610)	(30,207)	(33,882)
Op. profit before WC changes	120,342	109,993	105,102	123,684
Net Changes-WC	28,058	(15,725)	21,354	8,795
Direct tax	(30,550)	(29,599)	(28,845)	(34,467)
<b>Net cash from Op. activities</b>	<b>117,850</b>	<b>64,669</b>	<b>97,611</b>	<b>98,011</b>
Capital expenditures	(35,653)	(45,419)	(50,000)	(50,000)
Interest / Dividend Income	-	-	-	-
Others	(47,168)	13,362	30,207	33,882
<b>Net Cash from Inv. activities</b>	<b>(82,821)</b>	<b>(32,057)</b>	<b>(19,793)</b>	<b>(16,118)</b>
Issue of share cap. / premium	-	(2,116)	-	-
Debt changes	(3,728)	388	-	-
Dividend paid	(27,268)	(29,048)	(45,388)	(50,834)
Interest paid	(3,464)	(758)	(800)	(750)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(34,460)</b>	<b>(31,534)</b>	<b>(46,188)</b>	<b>(51,584)</b>
<b>Net change in cash</b>	<b>569</b>	<b>1,078</b>	<b>31,630</b>	<b>30,310</b>
Free Cash Flow	82,197	19,250	47,611	48,011

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
<b>Net Revenue</b>	<b>222,332</b>	<b>196,683</b>	<b>214,594</b>	<b>197,198</b>
YoY gr. (%)	2.1	2.0	1.4	(12.2)
Raw Material Expenses	152,849	140,437	154,236	140,913
Gross Profit	69,483	56,246	60,358	56,285
Margin (%)	31.3	28.6	28.1	28.5
<b>EBITDA</b>	<b>32,313</b>	<b>19,311</b>	<b>22,634</b>	<b>20,478</b>
YoY gr. (%)	(12.1)	(36.4)	(24.9)	(38.9)
Margin (%)	14.5	9.8	10.5	10.4
Depreciation / Depletion	7,212	7,677	8,102	9,186
<b>EBIT</b>	<b>25,101</b>	<b>11,634</b>	<b>14,532</b>	<b>11,292</b>
Margin (%)	11.3	5.9	6.8	5.7
Net Interest	257	206	88	547
Other Income	5,266	9,173	8,677	8,364
<b>Profit before Tax</b>	<b>32,110</b>	<b>20,601</b>	<b>23,121</b>	<b>19,109</b>
Margin (%)	14.4	10.5	10.8	9.7
Total Tax	9,706	5,708	5,165	4,754
Effective tax rate (%)	30.2	27.7	22.3	24.9
<b>Profit after Tax</b>	<b>22,404</b>	<b>14,893</b>	<b>17,956</b>	<b>14,355</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>20,404</b>	<b>14,893</b>	<b>17,956</b>	<b>14,355</b>
YoY gr. (%)	(17.9)	(17.2)	(15.8)	(27.3)
Margin (%)	9.2	7.6	8.4	7.3
Extra Ord. Income / (Exp)	2,000	-	-	-
<b>Reported PAT</b>	<b>22,404</b>	<b>14,893</b>	<b>17,956</b>	<b>14,355</b>
YoY gr. (%)	(9.8)	(17.2)	(4.6)	(27.3)
Margin (%)	10.1	7.6	8.4	7.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>22,404</b>	<b>14,893</b>	<b>17,956</b>	<b>14,355</b>
Avg. Shares O/s (m)	302	302	302	302
<b>EPS (Rs)</b>	<b>67.5</b>	<b>49.3</b>	<b>59.4</b>	<b>47.5</b>

Source: Company Data, PL Research

**Key Financial Metrics**

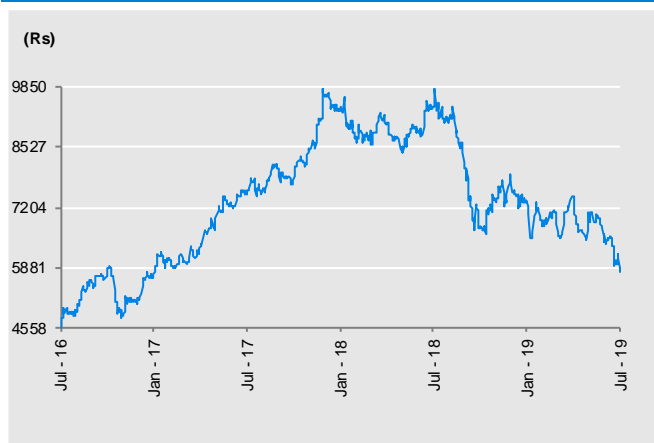
Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	255.6	248.3	243.1	290.5
CEPS	346.9	348.2	349.8	405.0
BVPS	1,382.3	1,527.5	1,620.3	1,742.6
FCF	272.1	63.7	157.6	158.9
DPS	80.0	80.0	125.0	140.0
<b>Return Ratio(%)</b>				
RoCE	24.3	17.7	15.3	17.5
ROIC	17.6	13.1	12.1	14.8
RoE	19.8	17.1	15.4	17.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.1)
Net Working Capital (Days)	(27)	(17)	(24)	(24)
<b>Valuation(x)</b>				
PER	22.7	23.4	23.9	20.0
P/B	4.2	3.8	3.6	3.3
P/CEPS	346.9	348.2	349.8	405.0
EV/EBITDA	14.1	16.1	16.3	13.6
EV/Sales	2.2	2.0	1.9	1.7
Dividend Yield (%)	1.4	1.4	2.2	2.4

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY18	FY19	FY20E	FY21E
Volume (units)	1,779,574	1,862,448	1,862,912	1,979,850
Net realisation (Rs/unit)	438,896	445,792	467,174	492,093

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	BUY	7,100	6,544
2	5-Apr-19	BUY	7,600	7,108
3	28-Jan-19	BUY	7,600	6,513
4	7-Jan-19	BUY	8,510	7,362
5	25-Oct-18	BUY	8,510	6,723
6	22-Oct-18	BUY	8,510	6,812
7	5-Oct-18	BUY	10,705	7,199

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	106	90
2	Bajaj Auto	Reduce	2,823	2,895
3	Bharat Forge	Hold	513	476
4	CEAT	Reduce	886	936
5	Eicher Motors	Hold	19,318	19,825
6	Exide Industries	Accumulate	231	200
7	Hero Motocorp	Accumulate	2,729	2,606
8	Mahindra & Mahindra	BUY	815	672
9	Maruti Suzuki	BUY	7,100	6,544
10	Motherson Sumi Systems	Accumulate	131	127
11	Tata Motors	Hold	139	144
12	TVS Motors	Hold	405	380

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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