

MARUTI SUZUKI | Auto & Auto Components

Margins disappoint, Q1 to be impacted by lockdown, revival from Q2

LKP

Q4 margins below expectations on the back of high RM costs

MSIL's Q4 FY21 revenues grew by 32% yoy and 2.4% qoq to ₹240 bn on the back of strong volumes and a lower base which was impacted by the pandemic. Realizations grew by 4% both yoy and qoq. EBITDA margins reduced to 8.3%, a fall of 70 bps yoy on firming up of input costs, as steel and precious metal prices are spiraling upwards. RM to sales ratio stood at 77.3% v/s 76.5% qoq and 74.4% yoy. Discounting in the quarter was sequentially down to ₹16.6K v/s ₹20.2K. Despite price hikes, low discounting and product mix favoring SUVs, margins were more than offset by the input costs escalation. On the back of a steep fall in other income (90% yoy) led by lower fair value gains on invested surplus, and subdued operating performance, PAT moved down by 10% yoy and 40% qoq to ₹11.66 bn.

Demand outlook remains positive over long term

Demand in Q4 improved by 28% yoy to 4.92 lakh units as lockdown restrictions were relaxed and Q4 being seasonally a bright quarter. MSIL highlighted that Q4 demand remained strong driven by robust rural sentiment, higher first time and additional car buyers, CNG variants and personal mobility theme. As discounting remaining low qoq, and channel inventory standing at just 22k units, waiting period increased to more than 1.5 months. This is a clear indication of demand remaining robust even after festive season. While MSIL's share of rural has reached 41% from 38.5% qoq, urban markets have also started witnessing pick-up in sales during Q4. Currently, demand for hatchback is higher primarily driven by moderation in income levels, telescoping of demand and focus on functionality aspect by customers. There is a jump in enquiries for pre-owned cars, however, replacement segment has slowed down (from 26% Q3 FY21 to 19.5% in Q4 FY21) implying that first time buyers for MSIL have increased (47% from 43-44% yoy) leading to robust demand for the hatchback portfolio. Even the demand for MSIL's SUVs such as Ertiga and Brezza have picked up in Q3 leading to MSIL taking #1 spot in the entry level SUV segment, while it needs to improve in the mid and premium SUVs. Excluding mid and premium SUVs, the market share of MSIL will be 64%, while including these it is just above 48%. In the mini truck segment as well, Super Carry LCV of MSIL has achieved #1 spot (~29.5 k sales in FY21).

Car buying is a discretionary purchase and affordability and sentiments will play key role in continuity of demand. Therefore the current second wave of the pandemic may impact the sales in Q1 FY22. Management mentioned that as of now bookings are not having a major impact, but retail sales will be soon impacted due to stringent lockdown in 9 major states in the country (35% of sales). Therefore the current demand will be subdued, however as and when the pandemic fades off, demand will resume like it did last year. We remain sanguine on the demand outlook considering a decent model pipeline from MSIL.

Key Financials	FY 20	FY 21	FY 22E	FY 23E
Total Sales (Rs bn)	756.1	703.3	897.8	1,040.6
EBITDA margins (%)	10.2	8.0	9.7	11.4
PAT Margins (%)	7.9	6.4	7.4	8.6
EPS (Rs)	187.1	140.1	212.2	287.9
P/E (x)	35.0	46.8	30.9	22.8
P/BV (x)	4.1	3.9	3.6	3.3
EV/EBITDA (x)	27.1	36.6	23.3	16.9
ROE (%)	11.7	8.2	11.6	14.5
Dividend Yield (%)	1.5	1.0	1.5	2.0

Rating	Buy
Current Market Price (₹)	6,552
12 M Price Target (₹)	7,485
Potential upside (%)	14

Stock Data

FV (₹) :	5
Market Cap Full (₹ bn) :	1,979
Market Cap Free Float (₹ bn) :	882
52-Week High / Low (₹) :	4,638 / 8,329
2-Year High / Low (₹) :	4,001 / 8,329
1 Year Avg. Dly Traded Volume (in lakh)	13
BSE Code / NSE Symbol	532500 / MARUTI
Bloomberg :	MSIL IN

Shareholding Pattern (%)

	Mar-21	Dec-20	Sep-20	Jun-20
Promoter	56.37	56.37	56.37	56.28
FPIs	23.11	23.09	21.86	21.47
MFs	7.49	7.83	7.51	7.34
FI's/Insurance	7.36	7.53	8.88	9.31
Others	5.67	5.18	5.38	5.60

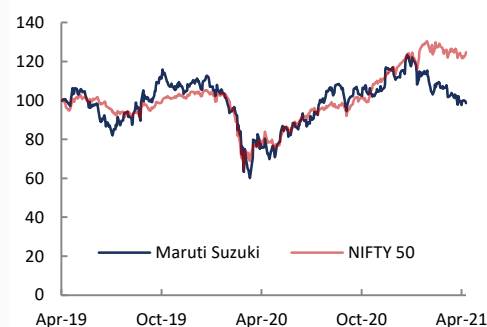
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
Maruti Suzuki	-3.2%	-16.5%	-8.2%	29.9%
Nifty 50	1.0%	4.9%	23.2%	57.9%

* To date / current date : April 27, 2021

Maruti Suzuki vs Nifty 50



Margin recovery to be led by price hikes and higher utilization of capacities in FY22

MSIL reported margin de-growth in Q4 at 8.3%, 70 bps down yoy, due to strong headwinds of currency, commodities and lower fair value gains on invested surplus. Lower sales and promotional expenses, lower discounts, improved capacity utilization, cost reduction efforts led to arrest in further margin decline. In January, MSIL has taken some price hikes in the range of <1% on its various models, in cognizance with the demand pick up. Also in April they took a price hike of 1.25%; the positive impact of which to be seen in Q1 FY22. Going forward, in line with these price hikes, higher volume growth from Q2 of FY22E, bigger model launches, increasing capacity utilization levels (FY21 rates were at ~70-75%) in FY22E and company level cost savings we expect margins to grow from Q4 levels and improve further in H2 FY22E despite the aforementioned headwinds continuing hereon as well. Any fall in RM prices will act as an upward trigger.

Quarterly Financial Snapshot

(₹ mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Total income	2,40,237	2,34,578	2.4	1,81,987	32.0
Raw Material Costs	1,77,509	1,70,156	4.3	1,27,914	38.8
Employee Costs	9,003	9,455	(4.8)	8,194	9.9
Other Expenses	33,814	32,706	3.4	30,415	11.2
EBITDA	19,911	22,261	(10.6)	15,464	28.8
EBITDA Margins %	8.3%	9.5%	(120 bps)	8.5%	(70 bps)
Depreciation & Amortization	7,410	7,413	(0.0)	8,230	(10.0)
Interest Expenses	324	287	12.9	283	14.5
Other Income	898	9,937	(91.0)	8,804	(89.8)
PBT	13,075	24,498	(46.6)	15,755	(17.0)
Tax	1,414	5,084	N/A	2,838	(50.2)
Adjusted PAT	11,661	19,414	(39.9)	12,917	(9.7)
Exceptional Items	-	-	NA	-	NA
Reported PAT (Rs)	11,661	19,414	(39.9)	12,917	(9.7)

Source: Company, LKP Research

Outlook and Valuation

MSIL reported soft margin numbers in Q4, as the company witnessed an unprecedented hike in input costs. However, the demand is quite strong driven by robust bounce back in volumes post lockdown, increased demand for hatchbacks, rise in first time buyers and personal mobility theme. This demand may observe a temporary break given the second wave of pandemic surging across the country, but may strongly bounce back once it fades off. Going forward, we believe that newer launches, higher capacity utilization rates and price hikes should trigger a superior volume and margin profile in FY22 and ensuing year. With ability to combat competition and wide presence in the rural markets which is growing at a higher pace than urban markets, (which is also showing a strong pick up) MSIL is poised for a healthy growth here-on. However, we are worried about the impact of the current pandemic on the short term demand as well as supply. In line with weak Q4 margins and concerns over demand in early FY22, we prune down our estimates and target to ₹7,485, while maintaining our BUY rating on the stock.

Per unit parameters	Q1 FY20	Q2 FY 20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Net Realisation/unit	4,65,362	4,76,488	4,49,265	4,46,353	4,80,098	4,49,961	4,48,414	4,66,414
Material Cost/unit	3,49,988	3,57,635	3,43,263	3,32,223	3,83,347	3,33,587	3,43,128	3,60,618
Employee cost per unit	21,339	24,781	19,823	21,282	95,341	21,031	19,066	18,290
EBITDA/unit	50,890	47,479	48,063	40,164	(1,12,717)	49,185	44,890	40,450
PAT/unit	35,681	40,158	35,778	33,548	(32,559)	34,889	39,149	23,690

Source: Company, LKP Research

Income Statement Quarterly

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
Total Revenues	7,56,106	7,03,325	8,97,799	10,40,592
Raw Material Cost	5,31,566	5,08,172	6,26,338	7,09,658
Employee Cost	33,839	34,029	51,221	59,280
Other Exp	1,18,892	1,08,399	1,37,185	1,57,878
EBITDA	73,026	53,453	83,654	1,14,377
EBITDA Margin(%)	10.2	8.0	9.7	11.4
Other Income	34,208	29,464	32,000	35,000
Depreciation	35,257	30,315	34,439	39,495
EBIT	71,977	52,602	81,215	1,09,882
EBIT Margin(%)	10.0	7.9	9.4	10.9
Interest	1329	1008	1100	1200
PBT	70,648	51,594	80,115	1,08,682
PBT Margin(%)	9.9	7.8	9.3	10.8
Tax	14,142	9,297	16,023	21,736
PAT	56,506	42,297	64,092	86,946
PAT Margins (%)	7.9	6.4	7.4	8.6
Minority interest	0	0	0	0
Exceptional items	0	0	0	0
Adj PAT	56,506	42,297	64,092	86,946
Adj PAT Margins (%)	7.9	6.4	7.4	8.6

Key Ratios

YE Mar	FY 20	FY 21	FY 22E	FY 23E
Per Share Data (Rs)				
Adj. EPS	187.1	140.1	212.2	287.9
CEPS	303.9	240.4	326.3	418.7
BVPS	1603.9	1700.9	1821.9	1986.0
DPS	100.8	62.7	95.4	129.4
Growth Ratios(%)				
Total revenues	-13.7	-7.2	29.6	16.6
EBITDA	-33.6	-26.8	56.5	36.7
PAT	-24.7	-25.1	51.5	35.7
EPS Growth	-24.7	-25.1	51.5	35.7
Valuation Ratios (x)				
PE	35.0	46.8	30.9	22.8
P/CEPS	21.6	27.3	20.1	15.7
P/BV	4.1	3.9	3.6	3.3
EV/EBITDA	27.1	36.6	23.3	16.9
Operating Ratios (Days)				
Inventory days	22.1	17.0	17.0	17.0
Receivable Days	10.1	8.0	8.0	8.0
Payables day	0.5	2.4	2.4	2.4
Net Debt/Equity (x)	0.00	0.01	0.01	0.01
Profitability Ratios (%)				
ROCE	0.7	(1.2)	3.0	6.4
ROE	11.7	8.2	11.6	14.5
Dividend payout	53.9	44.8	44.9	44.9
Dividend yield	1.5	1.0	1.5	2.0

Source: Company, LKP Research

Balance Sheet

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
Equity and Liabilities				
Equity Share Capital	1,510	1,510	1,510	1,510
Reserves & Surplus	4,82,860	5,12,158	5,48,691	5,98,250
Total Networth	4,84,370	5,13,668	5,50,201	5,99,760
Total debt	0	0	0	0
Net Deferred Tax	5,984	3,847	3,847	3,847
Other long term liabilities	21,153	21,292	21,292	21,292
Long term provisions	1,066	800	800	800
Short term borrowings	1,063	4,888	5,188	5,488
Other current liabilities	30,148	47,146	47,146	47,146
Trade payables	74,941	1,01,617	99,281	1,04,692
Total provisions	6,796	7,416	7,416	7,416
Total current Liabilities	1,12,948	1,61,067	1,59,031	1,64,742
Total Equity & Liabilities	6,25,521	7,00,674	7,35,171	7,90,440
Net block	1,47,618	1,41,511	1,54,072	1,71,577
Capital WIP	13,374	11,923	12,923	14,923
Intangible Assets	4,067	5,217	5,217	5,217
Non current Investments	3,52,488	3,33,710	3,33,710	3,33,710
Other non current assets	358	363	363	363
Total Fixed Assets				
Current investments	12,188	84,157	85,157	89,157
Cash and Bank	211	30,364	32,823	53,062
Inventories	32,149	30,500	39,468	44,718
Trade receivables	19,749	12,766	21,274	27,550
Loan, Advances & others	169	230	230	230
Other current assets	19,808	27,250	27,250	27,250
Total current Assets	84,274	1,85,267	2,06,203	2,41,968
Total Assets	6,25,521	7,00,674	7,35,171	7,90,440

Cash Flow

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
PBT	70,648	51,594	80,115	1,08,682
Depreciation	35,257	30,315	34,439	39,495
Interest	1,329	1,008	1,100	1,200
Chng in working capital	-25,659	43,352	-19,812	-6,115
Other operating activities	-33,167	454	1,813	0
Cash flow from operations (a)	34,051	1,16,616	81,632	1,21,525
Capital expenditure	-31,936	-21,316	-48,000	-59,000
Chng in investments	27,637	-49,492	-1,000	-4,000
Other investing activities	-340	-2,031	0	0
(Inc)/dec in Intangible assets	369	420	0	0
(Inc)/dec in Other non current assets	-1,669	-3,118	0	0
Cash flow from investing (b)	-4,639	-72,839	-49,000	-63,000
Free cash flow (a+b)	29,412	43,777	32,632	58,525
Equity raised/(repaid)	0	0	0	1
Inc/dec in borrowings	-433	3,825	300	300
Dividend paid (incl. tax)	-29,134	-18,125	-27,560	-37,387
Other financing activities	-1,433	-1,108	-1,100	-1,201
Cash flow from financing (c)	-31,000	-15,408	-28,360	-38,287
Net chng in cash (a+b+c)	-1,588	28,369	4,272	20,239
Clsing cash & cash equivalents	182	28,551	32,823	53,062

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