

Maruti Suzuki

Demand backlog to offset commodity headwinds

Maruti reported an in-line 3QFY21 with PAT at Rs 19.4bn (+24% YoY), driven by 13% YoY growth in revenue and higher other income. However, the EBITDA margin at 9.5% was below estimates (vs. expectation of 10.2%). We remain enthused by Maruti's strong demand outlook, with pending orders of 215k units, and believe the commodity headwinds will be partially offset by - (1) rising utilisation levels as we expect double-digit demand growth (15%) in FY22-23E (2) price hikes and (3) normalising product mix over FY22-23E as demand revives. Reiterate BUY. Our target price is revised marginally lower to Rs 9,000 (at 27x FY23E EPS) as we trim our estimates over FY22-23E.

- 3QFY21 financials:** Revenue grew 13% YoY to Rs 234bn, owing to a similar growth in volumes (+13.4/26.1% YoY/QoQ). Average realisation at Rs 473k came in flat YoY/QoQ due to higher share of entry-level cars in the mix. EBITDA margin at 9.5% (-65/80bps YoY/QoQ) was a miss owing to commodity cost pressure (raw material cost ratio costs up 165/250bps YoY/QoQ). Other income at Rs ~10bn was up 27/65% YoY/QoQ due to higher fair value gains. PAT grew by 24/42% YoY/QoQ to Rs 19.4bn.
- Key takeaways:** (1) **Demand sustains post the festive season:** Demand momentum continued post the festive season as well. The company currently has a backlog of 215k units (c. 1.5 month of sales). System inventories remain extremely low (21k units at the beginning of Jan-21). (2) **RM cost pressure:** Commodity costs had a 300bps impact on the EBITDA margin in 3QFY21, with the cost pressure expected to sustain in 4QFY21 as well. The company has undertaken cost-cutting initiatives and taken price hikes in the range of 6-34k to offset the above. (3) **First-time buyers increase:** Due to COVID, the share of replacement buyers has fallen from 26% in FY20 to 19% currently. Against this, the share of first-time buyers has risen from 44 to 49%, due to a shift in consumer preference towards personal mobility. (4) **Others:** Maruti has launch e-financing services to promote end-to-end digital buying experience. The company has commenced exports of the Jimny SUV. The plant in Gujarat is operating at peak capacity of 500k units.

Financial Summary

YE March (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	234,578	207,068	13.3	187,445	25.1	860,203	756,106	682,608	804,724	951,479
EBITDA	22,261	21,021	5.9	19,336	15.1	109,993	73,026	54,609	90,129	113,892
APAT	19,414	15,648	24.1	13,716	41.5	75,006	56,506	47,330	78,702	100,441
Adj. EPS (Rs)	64.3	51.8	24.1	45.4	41.5	248.4	187.1	156.7	260.6	332.6
APAT Gr (%)						(2.9)	(24.7)	(16.2)	66.3	27.6
P/E (x)						30.5	40.5	48.4	29.1	22.8
RoE (%)						17.1	11.9	9.4	14.4	16.5

Source: Company, HSIE Research

Change in Estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	682,608	804,724	951,479	670,806	792,247	936,679	2	2	2
EBITDA	54,609	90,129	113,892	55,006	91,901	116,804	(1)	(2)	(2)
EBITDA margin (%)	8.0	11.2	12.0	8.2	11.6	12.5	-20 bps	-40 bps	-50 bps
PAT	47,330	78,702	100,441	47,155	79,968	101,380	0	(2)	(1)
EPS	156.7	260.6	332.6	156.1	264.8	335.7	0	(2)	(1)

Source: Company, HSIE Research

BUY

CMP (as on 28 Jan 2021)	Rs 7,589
Target Price	Rs 9,000
NIFTY	13,818

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 9,065	Rs 9,000
EPS %	FY21E	FY22E
	0%	-2%

KEY STOCK DATA

Bloomberg code	MSIL IN
No. of Shares (mn)	302
MCap (Rs bn) / (\$ mn)	2,292/31,384
6m avg traded value (Rs mn)	8,651
52 Week high / low	Rs 8,400/4,001

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.6	20.8	8.5
Relative (%)	(11.8)	(1.0)	(6.0)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	56.4	56.4
FIs & Local MFs	16.7	15.7
FPIs	21.9	23.1
Public & Others	5.0	4.9
Pledged Shares	0.0	0.0

Source : BSE

Aditya Makharia

aditya.makharia@hdfcsec.com
+91-22-6171-7316

Mansi Lall

mansi.lall@hdfcsec.com
+91-22-6171-7357

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com