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### Q4FY21 result review and earnings revision

## Automobiles

Target price: Rs5,339

### Earnings revision

(%)	FY22E	FY23E
Sales	↑ 8.8	↑ 8.2
EBITDA	↓ 8.2	↓ 2.2
EPS	↓ 11.4	↓ 7.0

### Target price revision

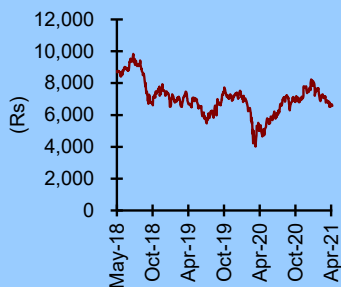
Rs5,339 from Rs5,226

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	56.4	56.4	56.4
Institutional investors	38.6	38.7	38.2
MFs and other	7.5	7.8	7.5
FIs/Banks	8.9	7.5	7.4
FIIIs	22.2	23.4	23.3
Others	5.0	4.9	5.4

Source: BSE

### Price chart



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# Maruti Suzuki India

## SELL

Maintained

Rs6,569

## Margins continue to flounder

Maruti Suzuki India's (MSIL) Q4FY21 earnings were a miss on consensus estimates as EBITDA margin declined ~120bps QoQ to 8.3%. Gross margin compression of ~135bps QoQ (RM caused ~280bps drag while price(~80bps)/ lower discounts(~70bps) aided margins) was key to the EBITDA decline. We believe margin pressures are likely to continue in H1 as price hikes remain insufficient to cover the rising input costs, while the new Gujarat line is likely to cause additional fixed cost drag. Operating leverage benefits have likely peaked out in Q4. MSIL's key challenge remains the lack of attractive products (while competition keeps launching theirs) in SUVs which has led to market share loss (<48%) as premiumisation /customer up-trading to SUV continues unabated. Stock remains expensive (32x FY23E core EPS of Rs157). Maintain SELL.

- **Key highlights of the quarter:** Revenues in Q4FY21 grew 32% YoY to ~Rs240bn, while ASP was up 325bps at ~Rs491k/vehicle (60bps each by lower discounts/exports while balance was due to price hikes/mix). PAT was down ~10% at Rs11.6bn on lower other income (down 446bps YoY) due to mark-to-market losses due to lower yields. The company declared a dividend of Rs45/share.
- **Key takeaways from earnings call:** Management indicated: a) demand remains strong in rural markets (~41% share in FY21 sales); however, ~35% of demand catchment in partial lockdown which could impact consumer sentiment; b) share of first-time buyers went up by 3.5% to 46.9% while replacement demand has reduced to ~19.5% (down ~700 bps YoY) with customers delaying purchases due to lack of mobility amidst surging covid cases; c) increase in commodity prices impacted Q4 margins by 400bps YoY; hit from Q4 input costs rise impact would come in Q1; input costs are further surging in Q1FY22; d) MSIL took price hike of ~0.8% in Q4 and 1.25% in Q1FY22 to partially offset commodity inflation; management remains wary of price increase impact on demand, d) digital inquiries' proportion has risen to ~35% in FY21 vis-à-vis 15-16% in FY20 and contributed 8% to retail sales; and e) network inventory levels have increased to ~90k units currently (Mar'21:32k units/ normal: 135-140k units) with an order backlog of ~200k units in Mar'21.
- **Maintain SELL:** Globally, customers' when given a choice are readily aligning towards BEVs over ICE (e.g. Europe), companies which are facilitating the change are being rewarded by investors (superior valuations). Indian automotive market may also follow suit; hence, MSIL's potential leader inertia to not pivot early enough towards EVs could prove unwise in the long-run. We prune our EPS estimates downwards (-11%/-7% FY22E/23E, respectively) and maintain our target multiple at 24x FY23E core EPS of Rs157 and add cash per share of Rs1,582 to arrive at our target price of Rs5,339 (earlier: Rs5,226). Maintain SELL.

Market Cap	Rs1984bn/US\$26.6bn	<b>Year to Mar</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
Reuters/Bloomberg	MRTI.BO /MSIL IN	Revenue (Rs bn)	756.1	703.3	828.5	966.0
Shares Outstanding (mn)	302.1	Net Profit (Rs bn)	56.5	42.3	55.1	72.5
52-week Range (Rs)	8233/4654	EPS (Rs)	187.1	140.1	182.4	240.0
Free Float (%)	43.6	% Chg YoY	(24.7)	(25.1)	30.2	31.6
FII (%)	23.3	P/E (x)	35.1	46.9	36.0	27.4
Daily Volume (US\$/'000)	1,14,408	CEPS (Rs)	303.9	240.4	295.4	367.8
Absolute Return 3m (%)	(16.5)	EV/E (x)	22.5	32.0	22.7	16.7
Absolute Return 12m (%)	31.1	Dividend Yield (%)	0.9	0.7	0.9	1.2
Sensex Return 3m (%)	3.4	RoCE (%)	15.4	10.6	13.7	16.9
Sensex Return 12m (%)	55.8	RoE (%)	11.9	8.5	10.4	12.6

Please refer to important disclosures at the end of this report

**Table 1: Q4FY21 result review**

(Rs mn, year ending March 31)

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
<b>Volumes (units)</b>	4,88,919	3,85,003	27.0	4,95,897	-1.4
Realizations (Rs/unit)	4,91,364	4,72,690	4.0	4,73,038	3.9
<b>Total operating income</b>	<b>2,40,237</b>	<b>1,81,987</b>	<b>32.0</b>	<b>2,34,578</b>	<b>2.4</b>
Raw material costs	1,77,509	1,27,914	38.8	1,70,156	4.3
Employee costs	9,003	8,194	9.9	9,455	-4.8
Other expenditures	33,814	30,415	11.2	32,706	3.4
<b>Total operating expenses</b>	<b>2,20,326</b>	<b>1,66,523</b>	<b>32.3</b>	<b>2,12,317</b>	<b>3.8</b>
<b>EBITDA</b>	<b>19,911</b>	<b>15,464</b>	<b>28.8</b>	<b>22,261</b>	<b>-10.6</b>
<b>EBITDA margin (%)</b>	<b>8.3</b>	<b>8.5</b>	<b>-21 bps</b>	<b>9.5</b>	<b>-120 bps</b>
Depreciation & Amortization	7,410	8,230	-10.0	7,413	-0.0
<b>EBIT</b>	<b>12,501</b>	<b>7,234</b>	<b>72.8</b>	<b>14,848</b>	<b>-15.8</b>
<b>EBIT margin (%)</b>	<b>5.2</b>	<b>4.0</b>	<b>123 bps</b>	<b>6.3</b>	<b>-113 bps</b>
Other income	898	8,804	-89.8	9,937	-91.0
Interest costs	324	283	14.5	287	12.9
<b>PBT</b>	<b>13,075</b>	<b>15,755</b>	<b>-17.0</b>	<b>24,498</b>	<b>-46.6</b>
Exceptional Items	-	-	-	-	-
Taxes	1,414	2,838	-50.2	5,084	-72.2
<b>PAT</b>	<b>11,661</b>	<b>12,917</b>	<b>-9.7</b>	<b>19,414</b>	<b>-39.9</b>

Source: Company data, I-Sec research

**Table 2: Estimate revision**

(Rs bn, year ending March 31)

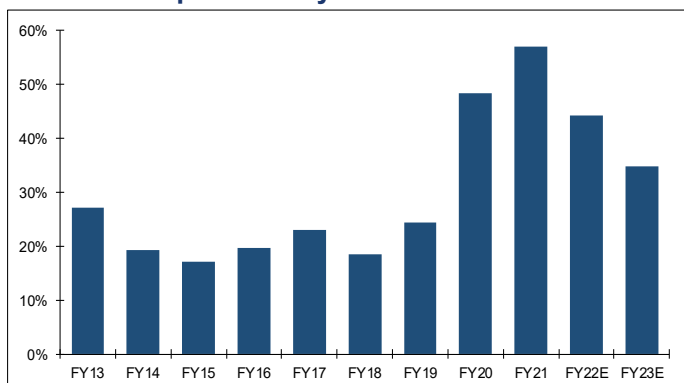
	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	761.6	828.5	8.8	893.1	966.0	8.2
EBITDA	81.8	75.1	(8.2)	102.8	100.6	(2.2)
PAT	62.2	55.1	(11.4)	77.9	72.5	(7.0)
EPS (Rs)	205.9	182.4	(11.4)	257.8	240.0	(7.0)

Source: Company data, I-Sec research

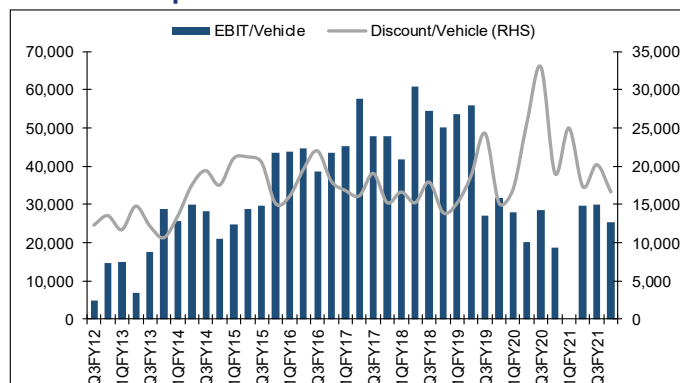
**Table 3: MSIL's product segment trends and expectations**

	FY18	FY19	FY20	FY21	FY22E	FY23E
Mini	4,74,405	4,47,007	4,25,273	4,20,429	4,55,974	4,79,458
Compact	4,61,129	5,39,988	4,30,954	3,97,126	4,60,425	5,16,828
Super Compact	2,40,124	2,53,859	1,79,159	1,28,251	1,44,924	1,63,764
Mid-size	58,913	46,169	25,258	13,852	14,545	15,999
UVs	2,53,759	2,64,197	2,35,288	2,29,101	2,69,189	3,14,373
Vans	1,65,170	2,02,480	1,40,182	1,34,637	1,61,564	1,85,799
<b>Domestic</b>	<b>16,53,500</b>	<b>17,53,700</b>	<b>14,36,114</b>	<b>13,23,396</b>	<b>15,06,621</b>	<b>16,76,221</b>
Exports	1,26,074	1,08,749	1,02,171	96,139	1,05,753	1,13,156
<b>Total</b>	<b>17,79,574</b>	<b>18,62,449</b>	<b>15,38,285</b>	<b>14,19,535</b>	<b>16,12,374</b>	<b>17,89,377</b>
<b>Toyota Transfer</b>			<b>25,002</b>	<b>38,326</b>	<b>75,000</b>	<b>1,00,000</b>
<b>Total (Sales+Transfer)</b>			<b>15,63,287</b>	<b>14,57,861</b>	<b>16,87,374</b>	<b>18,89,377</b>

Source: Industry data, I-Sec research

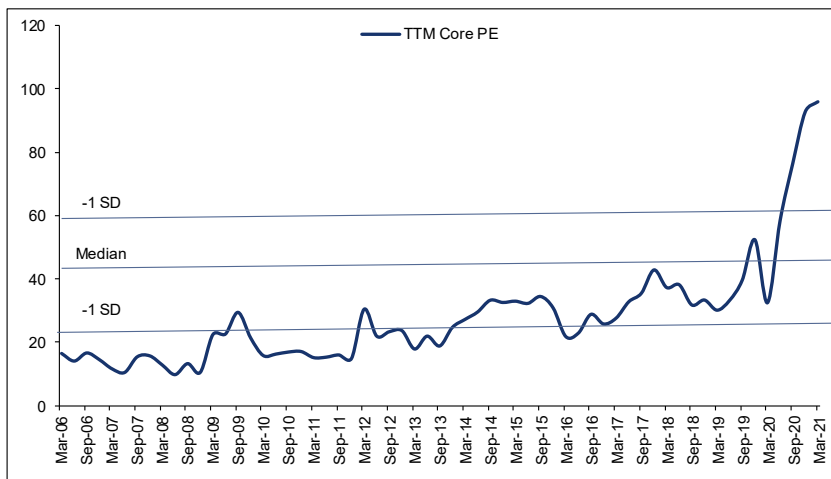
**Chart 1: Share of other income significantly higher vis-à-vis the previous cycle**

Source: I-Sec research

**Chart 2: Discount per vehicle edging downwards as sales drop**

Source: I-Sec research

**Chart 3: TTM trailing core P/E continues to trend higher**



Source: I-Sec research

**Table 4: Through-cycle trajectory of financials**

CAGR	FY13-23	FY14-23	FY15-23	FY16-23	FY17-23	FY18-23	FY19-23	FY20-23	FY21-23
Revenue	8.3%	9.2%	8.6%	7.7%	6.0%	3.9%	2.9%	8.5%	17.2%
EBIT	10.1%	8.3%	4.9%	0.3%	-3.7%	-7.8%	-6.1%	18.0%	63.7%
EPS	11.7%	11.2%	8.7%	4.4%	-0.2%	-1.3%	-0.9%	8.6%	30.9%

Source: I-Sec research

## Outlook and valuations

We trim our earnings estimates (11.4%/7% for FY22E/23E, respectively) factoring in the impact on elevated commodities and reduced pricing power. We maintain our valuation multiple at 24x FY23E core EPS of Rs157 and add cash per share of Rs1,583 to arrive at our target price of Rs5,339 (earlier: Rs5,226). Maintain **SELL**.

**Table 5: What the stock price is saying about current core valuation**

Reverse Valuation	FY23 EPS	FY23PE	Target Price
Core EPS	157	32	4,986
Cash per Share	1,583		1,583
<b>Total</b>			<b>6,569</b>

Source: I-Sec research

**Chart 4: Trailing P/E**



Source: I-Sec research, 12m trailing data

**Chart 5: Trailing P/B**



Source: I-Sec research, 12m trailing data

## Financial summary (standalone)

**Table 6: Profit and loss statement**
*(Rs mn, year ending March 31)*

	FY20	FY21P	FY22E	FY23E
<b>Total Volumes*</b>	<b>15,38,285</b>	<b>14,19,535</b>	<b>16,12,374</b>	<b>17,89,377</b>
<b>Total Op. Income (Sales)</b>	<b>7,56,106</b>	<b>7,03,325</b>	<b>8,28,550</b>	<b>9,65,987</b>
<b>Operating Expenses</b>	<b>6,83,080</b>	<b>6,49,872</b>	<b>7,53,490</b>	<b>8,65,400</b>
<b>EBITDA</b>	<b>73,026</b>	<b>53,453</b>	<b>75,060</b>	<b>1,00,587</b>
<i>% margins</i>	<i>9.7%</i>	<i>7.6%</i>	<i>9.1%</i>	<i>10.4%</i>
Depreciation & Amortisation	35,257	30,315	34,110	38,610
<b>EBIT</b>	<b>37,769</b>	<b>23,138</b>	<b>40,951</b>	<b>61,978</b>
Other Income	34,208	29,464	31,431	32,525
Gross Interest	1,329	1,008	1,297	988
<b>PBT</b>	<b>70,648</b>	<b>51,594</b>	<b>71,085</b>	<b>93,515</b>
Less: Taxes	14,142	9,297	15,994	21,041
Less: Extraordinaries	0	0	0	0
<b>Net Income (Reported)</b>	<b>56,506</b>	<b>42,297</b>	<b>55,090</b>	<b>72,474</b>
<b>Net Income (Adjusted)</b>	<b>56,506</b>	<b>42,297</b>	<b>55,090</b>	<b>72,474</b>

Source: Company data, I-Sec research \* including Toyota transfer

**Table 7: Balance sheet**
*(Rs mn, year ending March 31)*

	FY20	FY21P	FY22E	FY23E
<b>ASSETS</b>				
Current Assets	72,086	1,01,110	98,744	1,22,731
<i>Cash &amp; cash eqv.</i>	<i>211</i>	<i>30,364</i>	<i>16,032</i>	<i>18,279</i>
Current Liabilities & Provisions	1,11,885	1,56,179	1,45,011	1,52,075
<b>Net Current Assets</b>	<b>-39,799</b>	<b>-55,069</b>	<b>-46,267</b>	<b>-29,344</b>
<b>Investments</b>	<b>3,64,676</b>	<b>4,17,867</b>	<b>4,39,645</b>	<b>4,59,645</b>
Goodwill	0	0	0	0
<b>Net Fixed Assets</b>	<b>1,71,186</b>	<b>1,64,665</b>	<b>1,70,556</b>	<b>1,81,946</b>
<i>Capital Work-in-Progress</i>	<i>13,374</i>	<i>11,923</i>	<i>11,923</i>	<i>11,923</i>
Long term loans & advances	17,464	17,120	17,120	17,120
<b>Total Assets</b>	<b>5,13,636</b>	<b>5,44,692</b>	<b>5,81,162</b>	<b>6,29,476</b>
<b>LIABILITIES</b>				
<b>Borrowings</b>	<b>1,613</b>	<b>5,438</b>	<b>4,938</b>	<b>4,938</b>
Deferred Tax Liability	5,984	3,847	3,847	3,847
Other Non-current Liabilities	21,669	21,739	21,739	21,739
Equity Share Capital	1,510	1,510	1,510	1,510
Reserves & Surplus	4,82,860	5,12,158	5,49,128	5,97,442
<b>Net Worth</b>	<b>4,84,370</b>	<b>5,13,668</b>	<b>5,50,638</b>	<b>5,98,952</b>
<b>Total Liabilities</b>	<b>5,13,636</b>	<b>5,44,692</b>	<b>5,81,162</b>	<b>6,29,476</b>

Source: Company data, I-Sec research

**Table 10: 5-stage DuPont analysis**
*(Rs mn, year ending March 31)*

<i>All figures in %</i>	FY20	FY21P	FY22E	FY23E
Tax Burden (Adj. PAT/PBT)	80.0	82.0	77.5	77.5
Interest Burden (PBT/EBIT)	187.1	223.0	173.6	150.9
EBIT Margin (EBIT/Sales)	5.2	3.4	5.1	6.6
Asset Turnover (Sales/Total Assets)	145.3	128.6	142.5	154.6
Financial Leverage (Total Assets/Equity)	106.0	106.0	105.8	105.3
ROE	11.9	8.5	10.4	12.6

Source: Company data, I-Sec research

**Table 8: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY20	FY21P	FY22E	FY23E
<b>Cashflow before working capital changes</b>	<b>88,418</b>	<b>70,475</b>	<b>89,200</b>	<b>1,11,083</b>
Working Capital Changes	(28,625)	45,423	(23,134)	(14,677)
<b>Operating Cashflow</b>	<b>59,793</b>	<b>1,15,898</b>	<b>66,066</b>	<b>96,406</b>
Capital Commitments	(36,364)	(23,794)	(40,000)	(50,000)
<b>Free Cashflow</b>	<b>23,429</b>	<b>92,104</b>	<b>26,066</b>	<b>46,406</b>
<b>Cashflow from Investing Activities</b>	<b>(42,192)</b>	<b>(86,298)</b>	<b>(61,778)</b>	<b>(70,000)</b>
Issue of Share Capital	-	-	-	-
Inc/(Dec) in Borrowings	117	3,825	(500)	-
Dividend paid	(18,120)	(13,594)	(18,120)	(24,160)
Others	909	70	-	-
<b>Cashflow from Financing Activities</b>	<b>(17,094)</b>	<b>(9,699)</b>	<b>(18,620)</b>	<b>(24,160)</b>
<b>Net Cashflow</b>	<b>507</b>	<b>19,901</b>	<b>(14,332)</b>	<b>2,246</b>
<b>Closing Cash &amp; Bank balance</b>	<b>(41,206)</b>	<b>(21,305)</b>	<b>(35,637)</b>	<b>(33,390)</b>

Source: Company data, I-Sec research

**Table 9: Key ratios**
*(Year ending March 31)*

	FY20	FY21P	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
EPS (Basic)	187.1	140.1	182.4	240.0
EPS (Adjusted)	187.1	140.1	182.4	240.0
Cash EPS	303.9	240.4	295.4	367.8
Dividend per share (DPS)	60.0	45.0	60.0	80.0
BVPS (Adjusted)	1,603.9	1,700.9	1,823.3	1,983.3
<b>Growth Ratios (%)</b>				
Total Op. Income (Sales)	(12.1)	(7.0)	17.8	16.6
EBITDA	(33.6)	(26.8)	40.4	34.0
Net Income (Adjusted)	(24.7)	(25.1)	30.2	31.6
EPS (Adjusted)	(24.7)	(25.1)	30.2	31.6
Cash EPS	(12.8)	(20.9)	22.8	24.5
BVPS (Adjusted)	5.0	6.0	7.2	8.8
<b>Valuation Ratios (x)</b>				
P/E (Adjusted)	35.1	46.9	36.0	27.4
P/BV (Adjusted)	4.1	3.9	3.6	3.3
EV/EBITDA	22.5	32.0	22.7	16.7
EV/Sales	2.3	2.5	2.1	1.8

**Return/Profitability Ratios (%)**

EBITDA Margin	9.7	7.6	9.1	10.4
Net Income Margin (Adjusted)	7.8	6.2	6.9	7.7
RoCE	15.4	10.6	13.7	16.9
RoNW	11.9	8.5	10.4	12.6
Dividend Payout Ratio	32.1	32.1	32.9	33.3
Dividend Yield	0.9	0.7	0.9	1.2

**Solvency/Wkg. Cap. Ratios (x)**

Net D/E	(70.0)	(53.4)	(51.3)	(50.9)
Debt/EBITDA	2.2	10.2	6.6	4.9
EBIT/Interest	28.4	23.0	31.6	62.8
Current Ratio	0.6	0.6	0.7	0.8
Quick Ratio	0.6	0.5	0.6	0.7
Inventory (days)	22	22	24	26
Receivables (days)	10	7	8	10
Payables (days)	48	68	55	45

Source: Company data, I-Sec research

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