

Maruti Suzuki India

BUY

On the Verge of Turnaround.....

Summary

During Q2FY22, MSIL's profit declined by 65.3% YoY to Rs4.8bn (below our estimates Rs7.8bn). Sharp decline in profitability was attributed to lower EBITDA margins which declined by 615bps YoY to 4.2% (below our estimates of 5.5%) and lower other income which declined by 13.2% YoY. MSIL could not produce ~116,000 vehicles during the quarter due to electronics component shortage. Without semiconductor chip shortages, MSIL's volume growth would have been 26% in Q2FY22 vs -3% currently. The Company has more than 200,000 pending customer orders at the end of Q2FY22. We believe the Company falls in the category of "Great Company in Temporary Trouble" and remain super bullish on its growth prospects. We recommend BUY and retain our price target of Rs10,405.

Key Highlights and Investment Rationale

- PAT below estimates:** During Q2FY22, MSIL's Sales increased by 9.6% YoY to 205.4bn (5% above our estimates) primarily on account of 13.5% YoY increase in its average realizations. The Company's EBITDA margins declined by 615bps YoY to 4.2% (below our estimates of 5.5%). Sharp decline in EBITDA margin was on account of 588bps gross margin compression due to sharp rise in raw material prices which Company could not pass on to its customers.
- Business Outlook:** Based on current customers pending orders and likely easing of semiconductor shortages, we retain our earnings estimates for MSIL. We believe, MSIL is well poised to capitalize on PV industry turnaround in Indian market due to its irreplaceable competitive advantages like strong brands and distribution network. Over FY22-24E, we expect MSIL to report 20.1% volume CAGR and 46.7% PAT CAGR
- Bullish on MSIL's growth prospects:** BUY at Rs7,352, the stock quotes at PER of 21.2x FY24E. We recommend BUY and retain our price target of Rs10,405.

TP	Rs10,405		
CMP	Rs7,353		
Potential upside / downside	+42%		
Previous Rating	BUY		

V/s Consensus

EPS (Rs)	FY22E	FY23E	
IDBI Capital	141.3	285.9	346.8
Consensus	174.3	279.9	320.9
% difference	(18.9)	2.1	8.1

Shareholding Pattern (%)

Promoters	56.4
FII	22.5
DII	15.7
Public	5.4

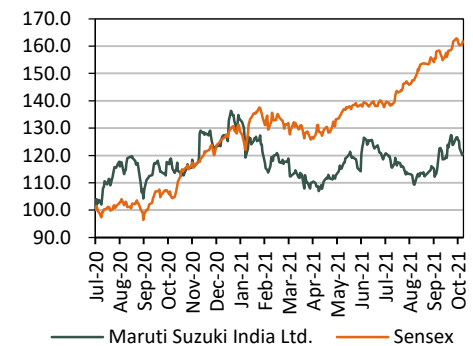
Price Performance (%)

	-1m	-3m	-12m
Absolute	5.8	1.6	4.2
Rel to Sensex	4.0	(14.1)	(48.1)

Key Stock Data

Bloomberg / Reuters	MSIL IN/MRTI.BO
Sector	Automobile
Shares o/s (mn)	302
Market cap. (Rs mn)	2,221,044
Market cap. (US\$ mn)	29,630
3-m daily avg Trd value (Rs mn)	344.4
52-week high / low	Rs8,400 / 6,301
Sensex / Nifty	61,143 / 18,211

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	7,56,106	7,03,325	8,03,895	10,54,081	11,75,269
EBITDA	73,026	53,453	55,977	1,24,387	1,53,941
EBITDA (%)	9.7	7.6	7.0	11.8	13.1
Adj. PAT	56,506	42,297	42,681	86,340	1,04,741
EPS (Rs)	187.1	140.1	141.3	285.9	346.8
EPS Growth (%)	(24.7)	(25.1)	0.9	102.3	21.3
PE (x)	39.3	52.5	52.0	25.7	21.2
Dividend Yield (%)	1.1	0.6	0.6	1.2	1.5
EV/EBITDA (x)	30.4	41.1	39.0	17.0	13.2
RoE (%)	11.9	8.5	8.1	15.1	16.4
RoCE (%)	7.8	4.5	4.2	14.8	17.1

Source: IDBI Capital Research;

Concall Highlights

■ On Sales volumes & exports

- The company sales in the quarter at 379,541 units compared to 393,130 units in same quarter last year. The Sales in the domestic market in the quarter at 320,133 units compared to 3,70,619 units in same quarter last year.
- The company had highest ever sales volume in the quarter at 59,408 units compared to 22,511 units in same quarter last year, which surged by 164%. On the exports front, the 50% of total volumes were from South Africa while one-third came from South Africa along with good contribution of South America. The better distribution network (Toyota dealership partnership) and global recovery seen across the continents led to growth. The company currently exports its Baleno and Brezza car models.

■ On current headwinds

- The shortages of electronics component (semiconductors) led to production loss of ~116,000 units in context to the domestic models. At the end of Q2FY22, the company has more than 200,000 pending customer orders for which the Company is making all efforts to accelerate the deliveries.
- The unprecedented increase in the prices of commodities namely steel, aluminum and precious metals within a span of a year was mitigated by cost reduction measures and minimum passing cost towards customers via car price hikes.
- The current dealer inventory count at 60,000 cars (incl. CV) and with expected festive season upcoming, the retail sales are expected to rise thereby by reducing the inventory. The order backlog stand at 250,000 plus. On the supply side front, the management refrained from giving any perspective as there being no clarity for H2FY22 for production and sales led by supply uncertainty. The company's retails volumes for Q2FY22 (estimated) at 385,000.

■ On CNG vehicles and Hybrid EV's growth

- The rise in CNG demand was mainly due to rise in fuel prices. With rising gap between prices of CNG & Petrol (CNG at Rs1.70/km vs. Petrol at Rs5/km) had led to higher demand and preference of owing a CNG vehicle along with improved infrastructure for CNG across the nation.

- The company out of its 15 models portfolio has 8 models of CNG. The volumes for CNG models were 75,000 in 2017-18; it was 105,000 in 2018-19, 158,000 in 2020-21 and is expected at over 300,000 in 2021-22. The demand surge for company's CNG model is huge and there is waiting period across the segments.
- The company's portfolio comprising of least CO2 emission models won't have much impact due to CAFÉ phase 2 and BSV1 phase 2 norms (to be adopted from April 01, 2021). With focus on CNG and Hybrid EV's, the company prospects remain bright for next 5-10 years.
- **Other highlights:**
 - The company took Price hike (average) in Sept month to the tune 1.9% in the first week of the month of which benefits to reap from Q3FY22 onwards. The company took three price hikes FY22 till date.
 - The Royalty which is combination of MSIL and Gujarat was at 3.5% in the quarter i.e. Rs6.7 bn.
 - The discounts in Q2FY22 Rs 18567 compared to Rs 13911 in Q1FY22 and Rs17310 in Q2FY21. The SUV (entry and mid SUV) demand has gone up on design front from customer perspective.
 - The company will keep well track on commodity prices and volumes and now softening of metals will have less impact in the coming quarter
 - The capex for FY 22 at Rs45 bn and with additional of Rs22 bn. on any other expansion plan, the total capex will be at Rs 67bn for the year. The company spent Rs15bn in H1FY22 and rest will be spend in H2FY22.
 - As per the management the situation towards semiconductors is seeing getting better and November month is expected to be better than October. The global issues leading to uncertainty and difficult is for the management to predict the outcome

Exhibit 1: Quarterly Snapshot

(Rs mn)	Q2FY22	Q2FY21	Q1FY22	YoY (%)	QoQ (%)
Volumes	3,79,541	3,93,130	3,53,614	(3.5)	7.3
Net Revenue	2,05,389	1,87,445	1,77,707	9.6	15.6
Expenditure	1,96,840	1,68,109	1,69,496	17.1	16.1
<i>as % of sales</i>	<i>95.8</i>	<i>89.7</i>	<i>95.4</i>	615	46
Consumption of RM	1,55,770	1,31,143	1,32,905	18.8	17.2
<i>as % of sales</i>	<i>75.8</i>	<i>70.0</i>	<i>74.8</i>	588	105
Employee Cost	9,622	8,268	10,643	16.4	(9.6)
<i>as % of sales</i>	<i>4.7</i>	<i>4.4</i>	<i>6.0</i>	27	(130)
Other expenditure	31,448	28,698	25,948	9.6	21.2
<i>as % of sales</i>	<i>15.3</i>	<i>15.3</i>	<i>14.6</i>	0	71
EBITDA	8,549	19,366	8211	(55.9)	4.1
Depreciation	7,561	7,659	7,432	-1.3	1.7
EBIT	988	11,677	779	(91.5)	26.8
Other Income	5,227	6,025	5,078	(13.2)	2.9
Interest	225	224	222	0.4	1.4
PBT	5,990	17,478	5,635	(65.7)	6.3
Total Tax	1,237	3762	1,227	(67.1)	0.8
Adjusted PAT after MI	4,753	13,716	4,408	(65.3)	7.8
Extra ordinary items Loss/(Gain)	-	-	-		
Reported PAT	4,753	13,716	4,408	(65.3)	7.8
Adjusted EPS	15.7	45.4	14.6	(65.4)	7.5
Margins (%)				(bps)	(bps)
EBIDTA	4.2	10.3	4.6	(617)	(46)
EBIT	0.5	6.2	0.4	(575)	4
EBT	2.9	9.3	3.2	(641)	(25)
PAT	2.3	7.3	2.5	(500)	(17)
Effective Tax rate	20.7	21.5	21.8	(87)	(112)

Source: Company; IDBI Capital Research

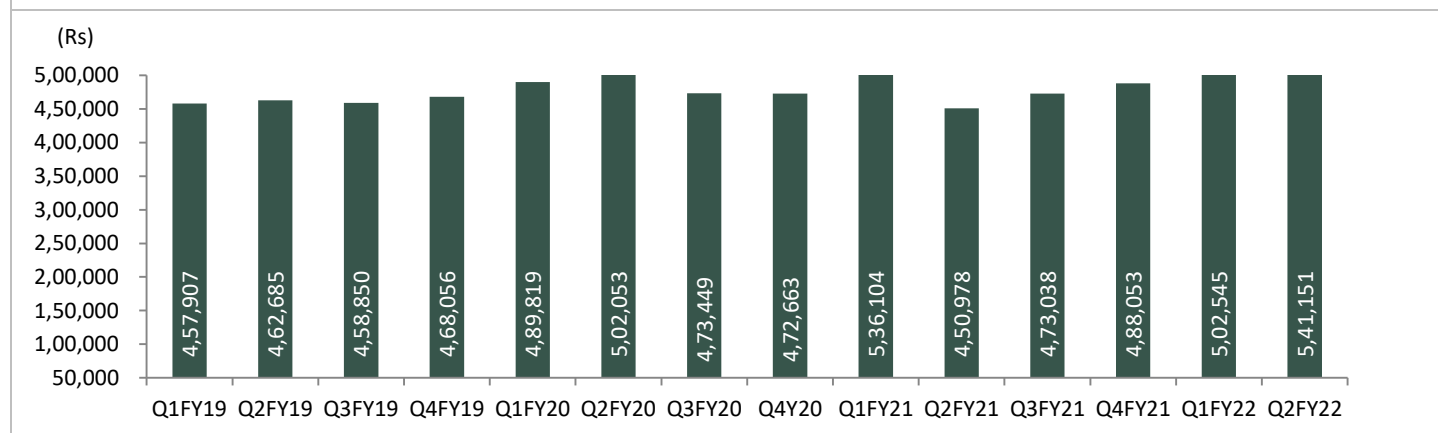
Exhibit 2: Actual vs. Estimates

(Rs mn)

	Actual	IDBI Est	Variance (%)
Net Sales	2,05,389	1,96,459	4.5
EBIDTA	8,549	10,860	(21.3)
Margin (%)	4.2%	5.5%	(137)
APAT	4,753	7,796	-39.0

Source: Bloomberg; IDBI Capital Research

Exhibit 3: Net Realization trend



Source: Company.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	7,03,325	8,03,895	10,54,081	11,75,269
<i>Growth (%)</i>	<i>(7.0)</i>	<i>14.3</i>	<i>31.1</i>	<i>11.5</i>
Operating expenses	(6,49,872)	(7,47,918)	(9,29,694)	(10,21,327.6)
EBITDA	53,453	55,977	1,24,387	1,53,941
<i>Growth (%)</i>	<i>-26.8</i>	<i>4.7</i>	<i>122.2</i>	<i>23.8</i>
Depreciation	(30,315)	(33,402)	(38,109)	(43,064)
EBIT	23,138	22,575	86,278	1,10,878
Interest paid	(1,008)	(1,008)	(1,008)	(1,008)
Other income	29,464	31,784	34,646	39,761
Pre-tax profit	51,594	53,352	1,19,917	1,49,630
Tax	(9,297)	(10,670)	(33,577)	(44,889)
<i>Effective tax rate (%)</i>	<i>18.0</i>	<i>20.0</i>	<i>28.0</i>	<i>30.0</i>
Minority Interest	-	-	-	-
Net profit	42,297	42,681	86,340	1,04,741
Exceptional items	-	-	-	-
Adjusted net profit	42,297	42,681	86,340	1,04,741
<i>Growth (%)</i>	<i>(25.1)</i>	<i>0.9</i>	<i>102.3</i>	<i>21.3</i>
<i>Shares o/s (mn nos)</i>	<i>302</i>	<i>302</i>	<i>302</i>	<i>302</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	51,594	53,352	1,19,917	1,49,630
Depreciation	30,315	33,402	38,109	43,064
Tax paid	(9,297)	(10,670)	(33,577)	(44,889)
Chg in working capital	44,806	(5,520)	23,231	12,046
Other operating activities	(2,259)	-	-	-
Cash flow from operations (a)	1,15,159	70,563	1,47,680	1,59,850
Capital expenditure	(22,734)	(45,000)	(50,000)	(50,000)
Chg in investments	(53,191)	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(75,925)	(45,000)	(50,000)	(50,000)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	3,825	-	-	-
Dividend (incl. tax)	(16,389)	(13,718)	(27,749)	(33,663)
Chg in minorities	3,390	0	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(9,174)	(13,718)	(27,749)	(33,663)
Net chg in cash (a+b+c)	30,060	11,845	69,931	76,187

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	1,64,468	1,76,066	1,87,958	1,94,894
Investments	4,17,867	4,17,867	4,17,867	4,17,867
Other non-curr assets	-	-	-	-
Current assets	89,130	1,13,865	2,04,986	2,91,858
Inventories	30,500	35,344	45,205	50,402
Sundry Debtors	12,766	18,582	24,365	27,167
Cash and Bank	30,271	42,116	1,12,047	1,88,234
Marketable Securities	-	-	-	-
Loans and advances	149	170	223	249
Total assets	6,71,465	7,07,798	8,10,810	9,04,619
Shareholders' funds	5,13,668	5,42,632	6,01,223	6,72,300
Share capital	1,510	1,510	1,510	1,510
Reserves & surplus	5,12,158	5,41,122	5,99,713	6,70,790
Total Debt	4,888	4,888	4,888	4,888
Secured loans	-	-	-	-
Unsecured loans	4,888	4,888	4,888	4,888
Other liabilities	6,990	6,990	6,990	6,990
Curr Liab & prov	1,45,919	1,53,288	1,97,710	2,20,440
Current liabilities	1,33,190	1,38,739	1,78,633	1,99,170
Provisions	12,729	14,549	19,077	21,270
Total liabilities	1,57,797	1,65,166	2,09,588	2,32,318
Total equity & liabilities	6,71,465	7,07,798	8,10,810	9,04,619
Book Value (Rs)	1,701	1,797	1,991	2,226

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	140.1	141.3	285.9	346.8
Adj. EPS growth (%)	-25.1	0.9	102.3	21.3
EBITDA margin (%)	7.6	7.0	11.8	13.1
Pre-tax margin (%)	7.3	6.6	11.4	12.7
ROE (%)	8.5	8.1	15.1	16.4
ROCE (%)	4.5	4.2	14.8	17.1
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.1	1.2	1.4	1.4
Leverage factor (x)	1.3	1.3	1.3	1.3
Net margin (%)	6.0	5.3	8.2	8.9
Net Debt/Equity (x)	0.0	-0.1	-0.2	-0.3
Working Capital & Liquidity ratio				
Inventory days	16	16	16	16
Receivable days	7	8	8	8
Payable days	57	50	51	52

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	52.5	52.0	25.7	21.2
Price / Book value (x)	4.3	4.1	3.7	3.3
PCE (x)	30.6	29.2	17.8	15.0
EV / Net sales (x)	3.1	2.7	2.0	1.7
EV / EBITDA (x)	41.1	39.0	17.0	13.2
Dividend Yield (%)	0.6	0.6	1.2	1.5



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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