

# Maruti Suzuki India

# BUY

## Coming out of Dark Clouds

### Summary

During Q1FY22, MSIL's profit declined by 62.2% QoQ to Rs4.4bn (below our estimates Rs13.3 bn). Sharp decline in profitability was attributed to lower EBITDA margins which declined by 367bps QoQ to 4.6% (below our estimates of 8%) and lower other income which declined by 61.5% YoY. Despite poor show in Q1FY22, We believe, MSIL is likely to witness robust volume recovery hereon while cost pressure is likely to ease out post H2FY22. To factor in improved business outlook and expected improvement in profitability, we increase our volume and PAT estimates by 2.9%/26.7% for FY23E. We rate the stock as BUY with a revised price target of Rs8,585 (PER of 30x FY23E – PER in line with 7 year average PE).

### Key Highlights and Investment Rationale

- PAT below estimates:** During Q1FY22, MSIL's Sales declined by 26% QoQ to 178bn (below our estimates Rs181bn) primarily on account of 28.2% QoQ decline in its volumes. The Company's EBITDA margins declined by 367bps QoQ to 4.6% (below our estimates of 8%). Sharp decline in EBITDA margin was combination of lower operating leverage (~400bps) and sharp rise in raw material prices which Company could not pass on to its customers (~350bps).
- Business Outlook and Earning Revision:** Despite poor performance in Q1FY22, We understand, MSIL is to witness robust volume growth hereon on account of a) preference towards personal mobility trend b) better economic growth in the Country and c) decent monsoon fueling rural demand. However, in the near term, the Company will continue to face cost related challenges (rise in raw material prices) which are expected to soften during H2FY22. We increase our volume estimates by 2.9%/2.9% and PAT estimates by 42.7%/26.7% for FY22E and FY23E respectively. To factor in improved business outlook and expected improvement in profitability.
- BUY:** In the medium term, we remain positive on the MSIL's growth prospects given the low 4W penetration in India and MSIL's competitive advantages like strong brand and distribution network (3000+ distribution centers and seven blockbuster models - Dzire, Swift, Alto, Baleno, Ertiga, WagonR and Vitara Brezza). MSIL is expected to possess ~Rs542bn cash on its balance sheet by FY23E. We rate the stock as BUY with a revised price target of Rs8,585 (PER of 30x FY23E – PER in line with 7 year average PE).

**TP** Rs8,585  
**CMP** Rs7,150

Potential upside / downside 20%

### V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	199.9	286.2
Consensus	213.3	295.9
% difference	(6.3)	(3.3)

### Shareholding Pattern (%)

Promoters	56.4
FII	22.9
DII	15.6
Public	5.1

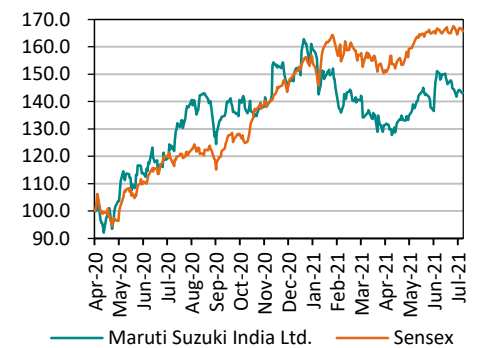
### Price Performance (%)

	-1m	-3m	-12m
Absolute	(6.5)	9.0	18.3
Rel to Sensex	(5.5)	1.9	(19.9)

### Key Stock Data

Bloomberg / Reuters	MSIL IN/MRTI.BO
Sector	Automobile
Shares o/s (mn)	302
Market cap. (Rs mn)	2,159,933
Market cap. (US\$ mn)	29,027
3-m daily avg Trd value (Rs mn)	2,690.0
52-week high / low	Rs8,400 / 6,040
Sensex / Nifty	52,444 / 15,709

### Relative to Sensex (%)



### Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue	8,60,203	7,56,106	7,03,325	9,21,691	10,24,861
EBITDA	1,09,993	73,026	53,453	75,466	1,14,751
EBITDA (%)	12.8	9.7	7.6	8.2	11.2
Adj. PAT	75,006	56,506	42,297	60,358	86,420
EPS (Rs)	248.4	187.1	140.1	199.9	286.2
EPS Growth (%)	(2.8)	(24.7)	(25.1)	42.7	43.2
PE (x)	28.8	38.2	51.1	35.8	25.0
Dividend Yield (%)	1.1	1.1	0.6	0.9	1.3
EV/EBITDA (x)	19.6	29.6	39.9	27.9	17.8
RoE (%)	17.1	11.9	8.5	11.3	14.8
RoCE (%)	17.7	7.8	4.5	7.8	13.3

Source: Company; IDBI Capital Research

### Concall Highlights

- **Demand Outlook:** Demand in July seems to be picked up post unlock in most of states except Manipur and Mizoram. There is pickup in enquiry, bookings and daily retail sales. Customer enquiries are similar of Q4FY21 and bookings are at 80%-85% of Q4FY21. On MoM level, July enquiries were 122% of June and retail is similar to June level. This year the recovery is led by both Urban and rural Vs rural last year.
- **Raw Material Outlook:** The Company continues to see higher raw material cost prices in Q2FY22. The Management expects commodity prices to stable in H2FY22. Commodity Inflation in Q1FY22 was 3.5% and in precious metal the inflation for Q2FY22 is steep. For the company, Raw Material prices are impacted by steel and other metal (precious metal, aluminum, etc.). The steel price is negotiated on each quarter and its impact comes on the same quarter. For all other metals the impact comes with a quarter lag. The company is likely to negotiate with 16 vendors for Q2FY22 raw material procurement.
- **Operating Margin Impact:** The higher commodity cost continues to assert pressure on margins. The company is working on its cost optimization program, lowered its sales promotion and advertisement expenditure to reduce the impact of higher RM cost. The operating leverage has impacted further 400bps at operating margin level.
- **Price Hike:** The Company took price increase in January (1.3%), April (1.6%) and July 2021. The company could not pass on entire cost increase to consumer as it can dismantle the demand.
- **Technology:** The Company will be working all technology to reduce its carbon footage. The company would work toward better IC engines, Hybrid & electrification, biofuels and natural gas. Till the time charging Infrastructure grows in India, the company would be focusing on Hybrid vehicles. The govt. is targeting to raise natural gas from 6.3% to 15% of energy basket. The CNG and PNG will be pillar for it. The Company is also responding to Govt. program on ethanol program. The govt. has mandated E20 by 2025. The Bio-Fuel is carbon neutral/Negative.
- **Industry Segment Mix:** In FY21, the first time buyer went up from 43% to 48%. Replacement came down to 18.5% from 26%. Additional car buying went up by 3%.
- **Maruti Segment Mix:** In Q1FY22, the first time buyer came down from 46.9% to 45.4%. The Pre covid Replacement car was 25% and management believes it should improve going forward to 25%-26%.
- **Chip Shortage to continue for a year:** Because of Pandemic the usage of semi-conductor has gone up as world has digitalized in faster pace and hence the chip suppliers are not able to judge which is causing the shortage problem. The problem will continue for a year. MSIL has wide portfolio as different model required different electronics. The company able to manage the product mix production accordingly.

- **Total Order:** As on today, the company has pending order booking of 170,000 vehicles. In stock and network the company has 135,000-138,000 units. i.e. 27 days of stock of Q4FY21 retail level.
- **Product Linked Incentive Scheme (PLI):** The PLI is on Advance Chemistry Cell (ACC) which is part of battery. The company has put up the 1<sup>st</sup> phase of its TDS plant and trial productions are done. The company is in discussion with the NITI Aayog and relevant Govt. Dept.
- **SUV segment:** SUV segment is growing through years. In FY20, SUV segment was 26% of Industry and in FY21, SUV segment was 32% and in Q1FY22 it contributed 37.9% and in May 2022 was 48%. The higher traction in SUV is in Mid/Entry SUV i.e. 16%/15% respectively. The company has Vitara Brezza (with 1.5 Lts, Euro 6 compliant Engine) and is market leader in entry segment. The Mid SUV is weak sport for MSIL. The S-cross has doesn't performed well in Mid SUV whereas Seltos and Creta performed well. In next 5 years, the SUV segment will be 42%-43% of total volume. Premium hatchback is also getting good traction and is getting major shift from sedan segment. Sedan Segment was 23% five years back is now contributes ~10%.
- **Market Share:** The retail market share of the company was lower at 40% whereas wholesale market share was 46%. The key reason was lower availability of CNG models. The company has 90% market share in CNG models and due to non-availability of oxygen, the production was impacted. The company would have added 5% retail market share if CNG models availability would have been there. MSIL market share ex-SUV is 65.4%, an increase of 5.7%. In PC/MPV/Vans the market share stands at 62.9%/69.2%/97.2%, an increase of 4.8%/14.4%/1.4%. In April, the company has ~30,000 cars in network and 2,000 cars in factory due to lower inventory and lower SUV market share the retail market share was down.
- **Maruti Suzuki Smart Finance:** The Company expanded Maruti Suzuki smart finance, an online, end to end, real time financing service across pan India.
- **Others:**
  - **Royalty:** The royalty for the Q1FY22 is 4%.
  - **CAPEX:** In FY22, the company will incur Rs45bn.
  - **Exports & Discount:** Exports Revenue for Q1FY22 was Rs.22.86bn. Discount was Rs14,000 in Q1FY22.
  - **5mn Milestone:** The Company attained sales of 5mn vehicles cumulative in Non-Urban markets with 1700+ customized non-urban outlet across the country. 40% sales come from Non-Urban Market.
  - **Subscription Service:** The Company expanded its subscription service program to 19 states.
  - **SMG 3<sup>rd</sup> Line:** The 3<sup>rd</sup> line in SMG with annual production capacity of 250,000 units was made operational in April.

**Exhibit 1: Quarterly Snapshot**

(Rs mn)	Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ (%)
<b>Volumes</b>	<b>3,53,614</b>	<b>76,599</b>	<b>4,92,235</b>	<b>361.6</b>	<b>(28.2)</b>
<b>Net Revenue</b>	<b>1,77,707</b>	<b>41,065</b>	<b>2,40,237</b>	<b>332.7</b>	<b>(26.0)</b>
<b>Expenditure</b>	<b>1,69,496</b>	<b>49,699</b>	<b>2,20,326</b>	<b>241.0</b>	<b>(23.1)</b>
<i>as % of sales</i>	95.4	121.0	91.7		
Consumption of RM	1,32,905	29,364	1,77,509	352.6	(25.1)
<i>as % of sales</i>	74.8	71.5	73.9	328.3	90.0
Employee Cost	10,643	7,303	9,003	45.7	18.2
<i>as % of sales</i>	6.0	17.8	3.7	(1,179.5)	224.2
Other expenditure	25,948	13,032	33,814	99.1	(23.3)
<i>as % of sales</i>	14.6	31.7	14.1	(1,713.3)	52.6
<b>EBITDA</b>	<b>8,211</b>	<b>(8,634)</b>	<b>19,911</b>	<b>NA</b>	<b>(58.8)</b>
Depreciation	7,432	7,833	7,410	(5.1)	0.3
<b>EBIT</b>	<b>779</b>	<b>(16,467)</b>	<b>12,501</b>	<b>NA</b>	<b>(93.8)</b>
Other Income	5,078	13,183	898	(61.5)	465.5
Interest	222	173	324	28.3	(31.5)
<b>PBT</b>	<b>5,635</b>	<b>(3,457)</b>	<b>13,075</b>	<b>NA</b>	<b>(56.9)</b>
Total Tax	1,227	(963)	1,414	NA	(13.2)
<b>Adjusted PAT after MI</b>	<b>4,408</b>	<b>(2,494)</b>	<b>11,661</b>	<b>NA</b>	<b>(62.2)</b>
Extra ordinary items Loss/(Gain)	-	-	-	NA	NA
<b>Reported PAT</b>	<b>4,408</b>	<b>(2,494)</b>	<b>11,661</b>	<b>NA</b>	<b>(62.2)</b>
<b>Adjusted EPS</b>	<b>14.6</b>	<b>(8.3)</b>	<b>38.61</b>	<b>NA</b>	<b>(62.2)</b>
<b>Margins (%)</b>				<b>(bps)</b>	<b>(bps)</b>
EBIDTA	4.6	(21.0)	8.3	NA	(367)
EBIT	0.4	(40.1)	5.2	NA	(477)
EBT	3.2	(8.4)	5.4	NA	(227)
PAT	2.5	(6.1)	4.9	NA	(237)
Effective Tax rate	21.8	NA	10.8	NA	1,096

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

(Rs mn)

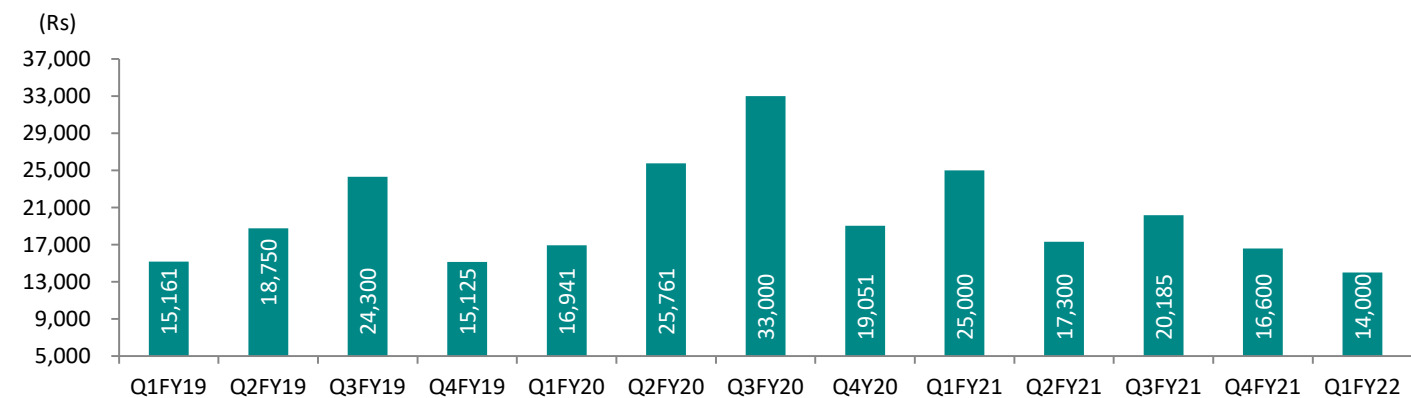
	Actual	IDBI Est	Variance (%)	Consensus	Variance (%)
Net Sales	1,77,707	1,81,212	(1.9)	1,78,501	(0.4)
EBIDTA	8,211	14,467	(43.2)	11,199	(26.7)
Margin (%)	4.6	8.0	(336) bps	6.3	(165) bps
APAT	4,408	13,289	(66.8)	8,787	(49.8)
EPS	14.6	44.0	(66.8)	38.3	(61.9)

Source: Bloomberg; IDBI Capital Research

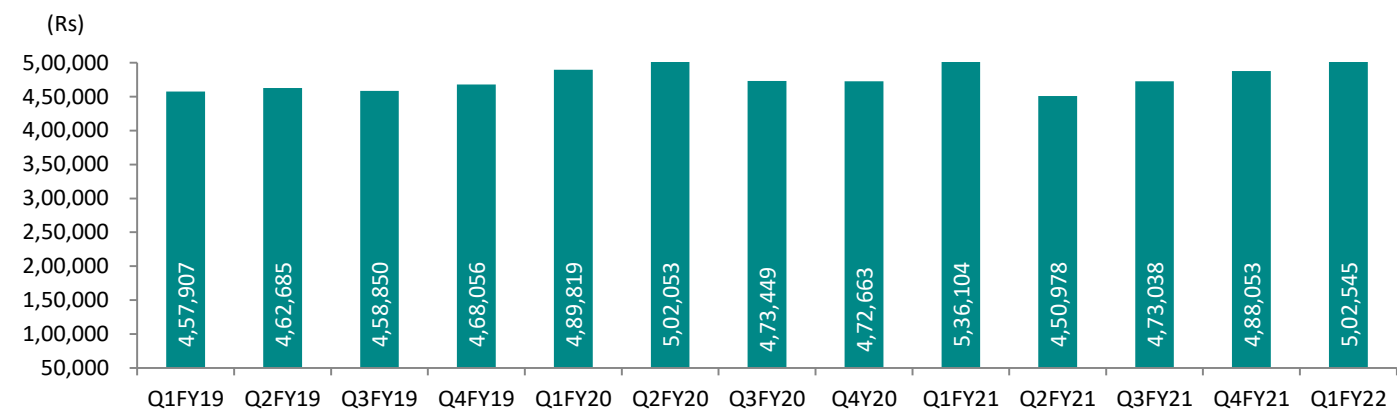
**Exhibit 3: Change in Estimates**

(Rs mn)	FY22E			FY23E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes (Units)	17,99,504	18,51,666	2.9	19,79,109	20,36,832	2.9
Revenues	8,73,699	9,21,691	5.5	9,78,765	10,24,861	4.7
EBITDA	73,603	75,466	2.5	95,502	1,14,751	20.2
Margin (%)	8.4	8.2	(24) bps	9.8	11.2	144 bps
Net Profit	54,559	60,358	10.6	68,249	86,420	26.6
FDEPS	180.6	199.9	10.7	225.9	286.2	26.7

Source: Company; IDBI Capital Research

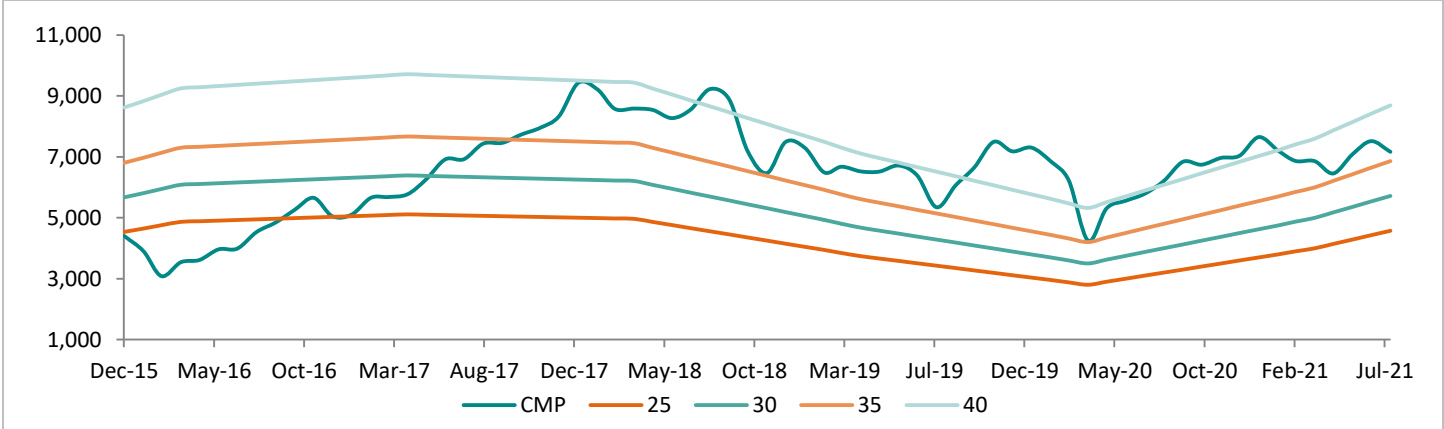
**Exhibit 4: Average Discounts over the quarters**


Source: Company.

**Exhibit 5: Net Realization trend**


Source: Company.

Exhibit 6: One-year forward P/E



Source: Bloomberg; IDBI Capital Research

**Exhibit 7: Domestic PV sales mix - Region wise and Top 10 states (%)**

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<b>Region Wise</b>												
North	31	29	30	32	32	26	32	31	34	30	30	29
East	12	13	13	12	12	14	13	12	19	14	13	13
West	30	31	32	31	30	30	34	31	26	31	34	32
South	27	28	25	26	25	29	21	26	21	26	22	26
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Top 10 State Wise Sales</b>												
Maharashtra	11	11	11	10	9	11	11	10	7	9	11	11
Kerala	8	8	8	7	6	10	5	7	4	8	5	7
Gujarat	9	9	8	9	8	9	9	9	9	9	10	9
U.P.	9	8	8	9	10	8	10	10	10	9	10	9
Delhi	6	6	6	6	6	5	6	5	6	5	5	5
Karnataka	7	7	5	6	6	6	5	6	6	6	5	6
Tamil Nadu	6	6	5	6	7	6	4	6	4	5	5	6
Haryana	6	5	5	6	6	5	6	7	8	6	6	7
Rajasthan	5	5	6	6	6	5	6	6	5	5	6	6
Punjab	3	3	3	3	2	3	3	3	3	3	3	3

Source: SIAM; IDBI Capital Research



## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>7,56,106</b>	<b>7,03,325</b>	<b>9,21,691</b>	<b>10,24,861</b>
<i>Growth (%)</i>	<i>(12.1)</i>	<i>(7.0)</i>	<i>31.0</i>	<i>11.2</i>
Operating expenses	(6,83,080)	(6,49,872)	(8,46,224)	(9,10,110)
<b>EBITDA</b>	<b>73,026</b>	<b>53,453</b>	<b>75,466</b>	<b>1,14,751</b>
<i>Growth (%)</i>	<i>(33.6)</i>	<i>(26.8)</i>	<i>41.2</i>	<i>52.1</i>
Depreciation	(35,257)	(30,315)	(32,633)	(35,558)
<b>EBIT</b>	<b>37,769</b>	<b>23,138</b>	<b>42,833</b>	<b>79,193</b>
Interest paid	(1,329)	(1,008)	(1,008)	(1,008)
Other income	34,208	29,464	33,623	37,041
<b>Pre-tax profit</b>	<b>70,648</b>	<b>51,594</b>	<b>75,448</b>	<b>1,15,227</b>
Tax	(14,142)	(9,297)	(15,090)	(28,807)
<i>Effective tax rate (%)</i>	<i>20.0</i>	<i>18.0</i>	<i>20.0</i>	<i>25.0</i>
<b>Net profit</b>	<b>56,506</b>	<b>42,297</b>	<b>60,358</b>	<b>86,420</b>
Exceptional items	-	-	-	-
<b>Adjusted net profit</b>	<b>56,506</b>	<b>42,297</b>	<b>60,358</b>	<b>86,420</b>
<i>Growth (%)</i>	<i>(24.7)</i>	<i>(25.1)</i>	<i>42.7</i>	<i>43.2</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	FY20	FY21	FY22E	FY23E
Pre-tax profit	70,648	51,594	75,448	1,15,227
Depreciation	35,257	30,315	32,633	35,558
Tax paid	(14,142)	(9,297)	(15,090)	(28,807)
Chg in working capital	(29,176)	44,500	2,830	8,722
Other operating activities	394	(2,259)	-	-
<b>Cash flow from operations (a)</b>	<b>62,981</b>	<b>1,14,853</b>	<b>95,822</b>	<b>1,30,700</b>
Capital expenditure	(31,049)	(22,335)	(45,000)	(40,000)
Chg in investments	474	(53,191)	-	-
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(30,575)</b>	<b>(75,526)</b>	<b>(45,000)</b>	<b>(40,000)</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(433)	3,825	-	-
Dividend (incl. tax)	(29,134)	(16,389)	(19,399)	(27,775)
Chg in minorities	(4,417)	3,390	-	0
Other financing activities	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(33,984)</b>	<b>(9,174)</b>	<b>(19,399)</b>	<b>(27,775)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(1,578)</b>	<b>30,153</b>	<b>31,423</b>	<b>62,925</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	1,65,059	1,58,651	1,71,018	1,75,460
Investments	3,64,676	4,17,867	4,17,867	4,17,867
Other non-curr assets	-	-	-	-
<b>Current assets</b>	<b>61,733</b>	<b>89,223</b>	<b>1,44,824</b>	<b>2,16,675</b>
Inventories	32,149	30,500	40,301	44,444
Sundry Debtors	21,270	12,766	22,302	24,798
Cash and Bank	211	30,364	61,787	1,24,712
Marketable Securities	-	-	-	-
Loans and advances	160	149	195	217
<b>Total assets</b>	<b>5,91,468</b>	<b>6,65,741</b>	<b>7,33,709</b>	<b>8,10,002</b>
<b>Shareholders' funds</b>	<b>4,84,370</b>	<b>5,13,668</b>	<b>5,54,627</b>	<b>6,13,273</b>
Share capital	1,510	1,510	1,510	1,510
Reserves & surplus	4,82,860	5,12,158	5,53,117	6,11,763
<b>Total Debt</b>	<b>1,063</b>	<b>4,888</b>	<b>4,888</b>	<b>4,888</b>
Secured loans	-	-	-	-
Unsecured loans	1,063	4,888	4,888	4,888
Other liabilities	7,677	6,990	6,990	6,990
<b>Curr Liab &amp; prov</b>	<b>98,358</b>	<b>1,40,195</b>	<b>1,67,204</b>	<b>1,84,852</b>
Current liabilities	89,016	1,27,466	1,50,523	1,66,303
Provisions	9,342	12,729	16,681	18,548
<b>Total liabilities</b>	<b>1,07,098</b>	<b>1,52,073</b>	<b>1,79,082</b>	<b>1,96,730</b>
<b>Total equity &amp; liabilities</b>	<b>5,91,468</b>	<b>6,65,741</b>	<b>7,33,709</b>	<b>8,10,002</b>
<b>Book Value (Rs)</b>	<b>1,604</b>	<b>1,701</b>	<b>1,837</b>	<b>2,031</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	187.1	140.1	199.9	286.2
Adj. EPS growth (%)	(24.7)	(25.1)	42.7	43.2
EBITDA margin (%)	9.7	7.6	8.2	11.2
Pre-tax margin (%)	9.3	7.3	8.2	11.2
ROE (%)	11.9	8.5	11.3	14.8
ROCE (%)	7.8	4.5	7.8	13.3
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.3	1.1	1.3	1.3
Leverage factor (x)	1.3	1.3	1.3	1.3
Net margin (%)	7.5	6.0	6.5	8.4
Net Debt/Equity (x)	0.0	0.0	(0.1)	(0.2)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	15.5	15.8	16.0	15.8
Receivable days	10.3	6.6	8.8	8.8
Payable days	40.0	57.1	50.3	51.6

**Valuation**

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	38.2	51.1	35.8	25.0
Price / Book value (x)	4.5	4.2	3.9	3.5
PCE (x)	23.5	29.7	23.2	17.7
EV / Net sales (x)	2.9	3.0	2.3	2.0
EV / EBITDA (x)	29.6	39.9	27.9	17.8
Dividend Yield (%)	1.1	0.6	0.9	1.3



# Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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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

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

**SEBI Registration:** BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

**Compliance Officer:** Christina D’souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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