

MARUTI SUZUKI | Auto & Auto Components

Demand remains robust amidst supply constraints

LKP**Resumption of new product launches to drive growth ahead**

While the EV threat together with the supply constraints due to semiconductor shortage have made MSIL underperform the NIFTY massively during the last one year, we believe that its new launch cycle aided by its massive scale and network advantage makes risk-reward favourable. After a gap of two years, we expect new product launches to resume, with a mix of complete product upgrades (five within 2-3 years) and new model launches (three within two years). This should drive volume, market share, and a margin recovery. Profitability is near the trough, and margin improvement is expected from the lows of H1 FY22.

Demand outlook remains positive over long term

Demand in the first 5 months of FY 22 has grown at 109% YTD to 6.46 lakh units on low base of first 5 months of FY 21 and demand is still good in the PV segment. MSIL highlighted that FY 22 demand is strongly driven by personal mobility theme, higher first time car buyers and CNG variants. CNG vehicles contributed 12% of domestic volumes (v/s 7.3% in FY20) for MSIL as sales of CNG vehicles grew 50% yoy. Similarly, sales of mild Hybrid vehicles (offered in six vehicles) grew 18% yoy in FY21. Our interactions with dealers across the country voices that demand for PVs is on a high with increasing footfalls, enquiries and demand for MSIL's Alto, Wagon R, Ertiga CNG, Baleno, Swift and Brezza higher than other models. With monsoon panning out well, we believe rural economy would shed its fears of the Third Wave thus boosting demand.

Supply issues may get resolved in the mid term

We are aware that the global PV segment is particularly facing issues related with semi conductor unavailability and MSIL is no exception. Due to shortage of microchips, the demand is not getting catered. Global chip makers are falling short of supplying the auto makers as the supply was diverted towards profitable electronic appliances, consumer durables, mobiles, laptops etc during the lockdown period as the demand for these increased. Going forward, companies like TSMC have mentioned that the production ramp-up is happening aggressively and issues should get resolved in next 3-4 months. Currently the dealerships are running on wafer thin inventory levels while the waiting periods are reaching new highs. This itself indicates high demand will resume as soon as the supply shortage reduces.

Margin recovery to be led by price hikes and higher utilization of capacities in FY 23

MSIL hit a margin trough in Q1 at 4.6%, its all time low, due to strong headwinds of currency, commodities, lower demand and utilization levels hit by Covid. The company has been taking price hikes on its various models in cognizance with the demand pick up. Also in January, April and July they took price hikes to mitigate input cost headwinds.

Key Financials	FY 20	FY 21	FY 22E	FY 23E
Total Sales (₹ bn)	756.1	703.3	850.2	1,019.1
EBITDA Margins (%)	10.2	8.0	7.3	10.4
PAT Margins (%)	7.9	6.4	6.0	8.4
EPS (₹)	187.1	140.1	163.0	273.2
P/E (x)	36.2	48.4	41.6	24.8
P/BV (x)	4.2	4.0	3.8	3.5
EV/EBITDA (x)	28.0	37.8	34.3	19.8
ROE (%)	11.7	8.2	9.1	14.0
Dividend yield (%)	1.5	0.9	1.1	1.8

Rating	Buy
Current Market Price (₹)	6,821
12 M Price Target (₹)	7,650
Potential upside (%)	12

Stock Data

FV (₹) :	5
Market Cap Full (₹ bn) :	2,060
Market Cap Free Float (₹ bn) :	908
52-Week High / Low (₹) :	6,270 / 8,329
2-Year High / Low (₹) :	4,001 / 8,329
1 Year Avg. Dly Traded Volume (in lakh)	10
BSE Code / NSE Symbol	532500 / MARUTI
Bloomberg :	MSIL IN

Shareholding Pattern (%)

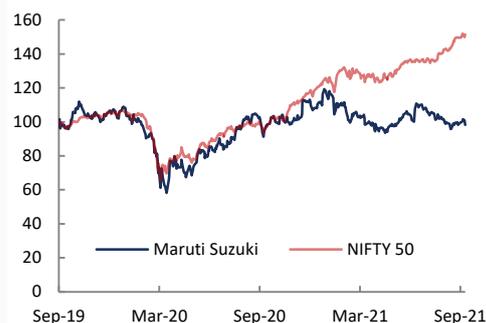
	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	56.37	56.37	56.37	56.37
FPIs	22.90	23.11	23.09	21.86
MFs	7.47	7.49	7.83	7.51
FI's/Insurance	8.13	7.36	7.53	8.88
Others	5.13	5.67	5.18	5.38

Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
Maruti Suzuki	-0.4%	-6.1%	-3.9%	5.9%
Nifty 50	6.7%	11.2%	19.1%	57.3%

* To date / current date : September 22, 2021

Maruti Suzuki vs Nifty 50

Industry experts believe that input costs should soften in H2 of FY 22 and thereon, which is a very positive sign as far as profitability is concerned. Going forward, in line with these price hikes, higher volume growth from Q4 of FY22E in line with supply revival, bigger model launches, increasing capacity utilization levels (FY 22 current rates are below 70%) and company level cost savings we expect margins to grow from Q1 levels and improve further in H2 FY 22E despite the aforementioned hindrances.

Outlook and Valuation

MSIL reported soft margin numbers in Q1, as the company witnessed an unprecedented hike in input costs and the demand was struck by Covid wave #2. However, the demand is now coming back driven by personal mobility theme, first time buyers and CNG variants. Going forward, with supply issues getting resolved sooner or later, we believe that newer launches, digitization of sales, expanding dealer network, higher capacity utilization rates and price hikes should trigger a superior volume and margin profile in the remainder of FY22 and ensuing year. Although we are seeing a shift in demand towards EVs, we believe it to be more in scooters and low end bikes rather than passenger cars while establishment of EV infrastructure along with capacity expansion should take some more time than expected. With ability to combat competition coming from EV shift and opening up of rural markets which were severely impacted by Covid Wave #2, MSIL is poised for a healthy growth here-on. Despite the short to mid-term issues, we remain sanguine on the stock with a price target of ₹7,650.

Income Statement Quarterly

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
Total Revenues	7,56,106	7,03,325	8,50,203	10,19,108
Raw Material Cost	5,31,566	5,08,172	6,19,593	7,17,908
Employee Cost	33,839	34,029	51,221	56,909
Other Exp	1,18,892	1,08,399	1,20,650	1,42,696
EBITDA	73,026	53,453	59,339	1,02,195
EBITDA Margin(%)	10.2	8.0	7.3	10.4
Other Income	34,208	29,464	32,000	35,400
Depreciation	35,257	30,315	28,699	33,259
EBIT	71,977	52,602	62,640	1,04,336
EBIT Margin(%)	10.0	7.9	7.7	10.6
Interest	1329	1008	1100	1200
PBT	70,648	51,594	61,540	1,03,136
PBT Margin(%)	9.9	7.8	7.5	10.5
Tax	14,142	9,297	12,308	20,627
PAT	56,506	42,297	49,232	82,509
PAT Margins (%)	7.9	6.4	6.0	8.4
Minority interest	0	0	0	0
Exceptional items	0	0	0	0
Adj PAT	56,506	42,297	49,232	82,509
Adj PAT Margins (%)	7.9	6.4	6.0	8.4

Key Ratios

YE Mar	FY 20	FY 21	FY 22E	FY 23E
Per Share Data (₹)				
Adj. EPS	187.1	140.1	163.0	273.2
CEPS	303.9	240.4	258.1	383.3
BVPS	1603.9	1700.9	1793.8	1949.5
DPS	100.8	62.7	73.3	122.8
Growth Ratios(%)				
Total revenues	-13.7	-7.2	22.5	20.7
EBITDA	-33.6	-26.8	11.0	72.2
PAT	-24.7	-25.1	16.4	67.6
EPS Growth	-24.7	-25.1	16.4	67.6
Valuation Ratios (X)				
PE	36.2	48.4	41.6	24.8
P/CEPS	22.3	28.2	26.3	17.7
P/BV	4.2	4.0	3.8	3.5
EV/EBITDA	28.0	37.8	34.3	19.8
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)	(0.2)	5.5
ROE	11.7	8.2	9.1	14.0
Dividend payout	53.9	44.8	44.9	44.9
Dividend yield	1.5	0.9	1.1	1.8

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	5,40,220	5,87,250
Total Networth	4,84,370	5,13,668	5,41,730	5,88,760
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
Current Liab & Prov				
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	93,804	1,02,455
Total provisions	6,796	7,416	7,416	7,416
Total current Liabilities	1,12,948	1,61,067	1,53,554	1,62,505
Total Equity & Liabilities	6,25,521	7,00,674	7,21,224	7,77,204
Assets				
Net block	1,47,618	1,41,511	1,59,812	1,83,553
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	14,735	27,919
Inventories	32,149	30,500	39,043	45,238
Trade receivables	19,749	12,766	20,101	26,962
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	1,86,516	2,16,756
Total Assets	6,25,521	7,00,674	7,21,224	7,77,204

Cash Flow

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
PBT	70,648	51,594	61,540	1,03,136
Depreciation	35,257	30,315	28,699	33,259
Interest	1,329	1,008	1,100	1,200
Chng in working capital	-25,659	43,352	-23,691	-4,405
Other operating activities	-33,167	454	1,813	0
Cash flow from operations (a)	34,051	1,16,616	57,154	1,12,563
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 N C 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	8,154	49,563
Equity raised/(repaid)	0	0	0	1
Inc/dec in borrowings	-433	3,825	300	300
Dividend paid (incl. tax)	-29,134	-18,125	-21,170	-35,479
Other financing activities	-1,433	-1,108	-1,100	-1,201
Cash flow from financing (c)	-31,000	-15,408	-21,970	-36,379
Net chng in cash (a+b+c)	-1,588	28,369	-13,816	13,184
Closing cash & cash equivalents	182	28,551	14,735	27,919

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