

BSE SENSEX 46,253
S&P CNX 13,558



Bloomberg	MSIL IN
Equity Shares (m)	302
M.Cap.(INRb)/(USDb)	2324.1 / 31.8
52-Week Range (INR)	8007 / 4002
1, 6, 12 Rel. Per (%)	6/2/-6
12M Avg Val (INR M)	8245
Free float (%)	43.6

Financials & valuations (INR b)

Y/E MARCH	FY20	FY21E	FY22E
Sales	756	679	858
EBITDA	73.0	62.3	103.7
Adj. PAT	56.5	51.4	81.6
EBIT Margin (%)	5.0	4.5	8.1
Cons. Adj. EPS (INR)	188.0	171.4	273.8
EPS Gr. (%)	-25.8	-8.8	59.8
BV/Sh. (INR)	1,603	1,701	1,899

Ratios

RoE (%)	11.7	10.0	14.2
RoCE (%)	14.6	12.5	18.2
Payout (%)	52	43	27

Valuations

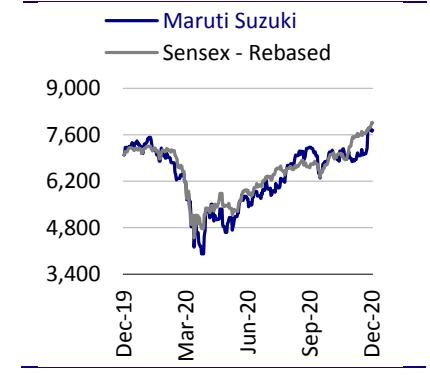
P/E (x)	40.9	44.9	28.1
P/BV (x)	4.8	4.5	4.1
Div. Yield (%)	1.0	0.8	0.8
FCF Yield (%)	0.0	1.8	2.6

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	56.4	56.3	56.2
DII	16.8	17.1	15.0
FII	21.9	21.5	23.4
Others	5.0	5.2	5.3

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR7,694

TP: INR8,150 (+6%)

Buy

Cautious optimism on demand outlook

Lower discounts, operating leverage and price hikes to dilute raw material cost inflation

We met the management of Maruti Suzuki (MSIL) to get an update on the evolving demand scenario, supply-side issues, cost headwinds, etc. The management is cautiously optimistic about demand. However, cost headwinds are material and the company is looking to dilute it through lower discounts, operating leverage, and price rises.

Outlook cautiously optimistic; pent-up demand to be met by 3Q

- Festive season (32 days) was strong, with some models sold out. Growth was good across the industry.
- There is optimism at this point due to strong festive sales and good momentum post that. Dealer inventory is low (from 130k units at the end of Mar'20 v/s 80k units at the end of Oct'20 and estimated 58k units or less than two weeks at the end of Nov'20).
- There is a reasonable case for optimism, but is a little early to call out, so it is cautiously optimistic for the remainder of FY21.
- Pent-up demand is almost over as reflected in new bookings (old bookings are almost over now). In a media interview ([link](#)), Mr. Shashank Srivastava, Executive Director, MSIL, said retail demand during Apr-Nov'20 declined ~15%. It expects pent-up demand to be fully met by 3QFY21 and expects 4Q to be purely new demand. Hence, 4QFY21 is critical to see sustenance in demand.

Rural and first-time buyers still driving demand

- Demand recovery has been good and driven by: a) first-time buyers and second car sales (due to the COVID-19 pandemic), b) pent-up demand, and c) rural markets aided by government stimulus.
- Retail demand has been strong in rural markets, led by hatchbacks. SUVs continue to do very well.
- Demand is driven by first-time buyers (~50% of total) and additional car buyers (~28%), whereas replacement demand (~22%) continues to be weak.

SUV segment a focus area for MSIL; diesel demand strong in SUV

- The fast growing SUV segment is very important for MSIL. It plans to grow in the SUV segment by: a) bringing in more models, b) ushering in technology, and c) filling the gaps from entry to mid-sized SUV segment. MSIL is committed to opportunities in the SUV market and will launch many new models in the coming years.
- Diesel remains relevant in the SUV segment. MSIL is closely evaluating a re-entry. As per the management, even under BS-VI there is good demand for diesel SUVs.

- Lack of diesel has led to some market share loss for Brezza in the compact SUV segment. Hence, MSIL is closely evaluating this opportunity and its re-entry in the above 1.5ltr diesel category.

Several positives and negatives for margin; volume growth is key

- Commodity price inflation is quite significant in core commodities as well as precious metals. While steel prices have already seen a sharp rise, MSIL expects a further increase in steel prices. Precious metals like rhodium and palladium are seeing a sharp increase.
- Some of the costs saved in 1HFY21 would return due to: a) increase in production, and b) normalization of marketing spends.
- On the positive side, a) discounts are low, b) a price increase is planned in Jan'21, and c) operating leverage would dilute the impact of the headwinds.
- In a nutshell, sustained volume recovery is important for it to attain its targeted EBIT margin of 8-10%.

CAFE norms compliance roadmap in place; Toyota alliance working on future technologies

- CAFE norms are applicable from 2023, but the industry has requested the government to delay it.
- Hybrid and CNG are two important means to meet CAFE norms. CNG share has been rising (currently 11-12% from 7% last year) and a further increase would be linked to the availability of CNG network.
- The management expects hybrids to be a relevant transitory solution over the next five years, post that it would be EVs. Hybrids would need government support to lower prices and realize its potential. Currently, the Toyota alliance focuses on hybrids, but EVs are also planned.

Other highlights

- Semiconductor availability is not yet a problem for MSIL. With BOS being a single source supplier of electronics, there could be some impact from a disruption in the supply of semiconductors. The management expects some clarity in the next couple of weeks.
- Capacity would increase to 2.1-2.2m by Apr'21 as the third line of 250k units would start operations. It has enough capacity to cater for any sharp increase in demand.
- Considering the very low inventory at the end of Nov'20 and further reduction in Dec'20 due to semi-annual maintenance shutdowns, inventory replenishment would drive wholesales in Jan'21.

Valuation and view

- PVs in general and MSIL in particular has seen a much sharper than expected recovery, driven by pent-up demand, increased preference for personal mobility, and its strength in hatchbacks.
- With a sharp increase in commodity prices and normalization of cost (from lows of 1HFY21), it is critical volume recovery sustains for EBIT margin to recover to 8-9% (our estimate and management's targeted range).

- The long-term outlook for PVs is closely linked with the economic growth and resultant job/income growth. Lackluster economic growth has led to anemic growth in last 5 years (1.3% CAGR period) in domestic PV volumes. We are building in ~7% CAGR in industry volumes over FY20-25E and ~8% CAGR for MSIL.
- We estimate 20% PAT CAGR over FY20-23E on the back of a strong recovery in volumes and EBIT margin (420bp to 9.2% by FY23E).
- The stock trades at 28.1x/23.6x FY22E/FY23E consolidated EPS (as against its 5/10 year average P/E of 29.9x/23.5x. Strong volume recovery in 2HFY21/FY22 is critical to the stock's performance from here on. Maintain **Buy**, with a TP of INR8,150/share (~25x Mar'23E consolidated EPS), a 15% discount to its five-year average P/E.

Exhibit 1: One-year forward P/E (x) band

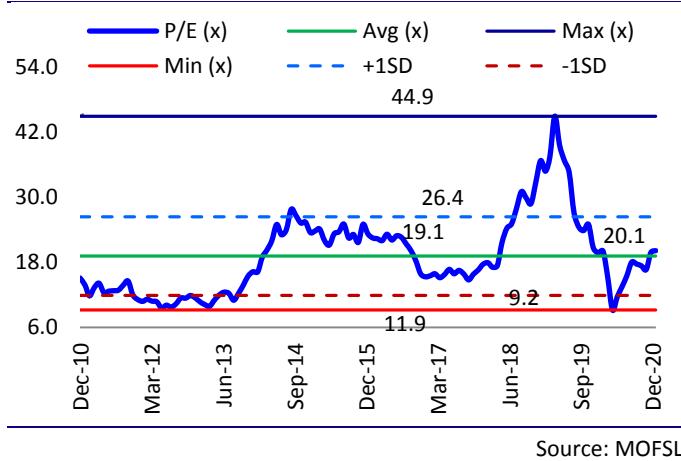
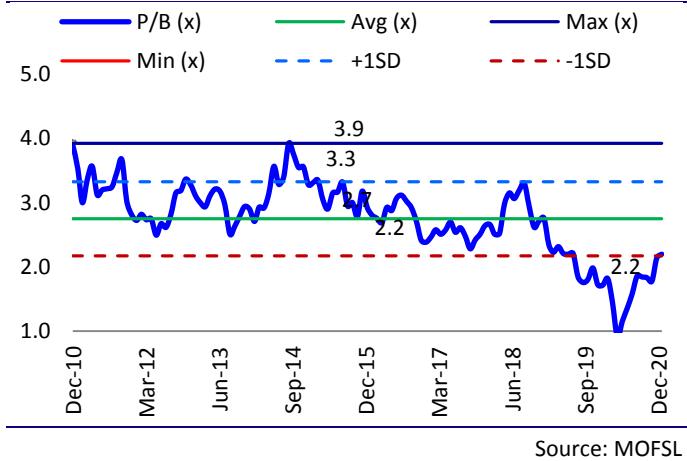


Exhibit 2: One-year forward P/B (x) band



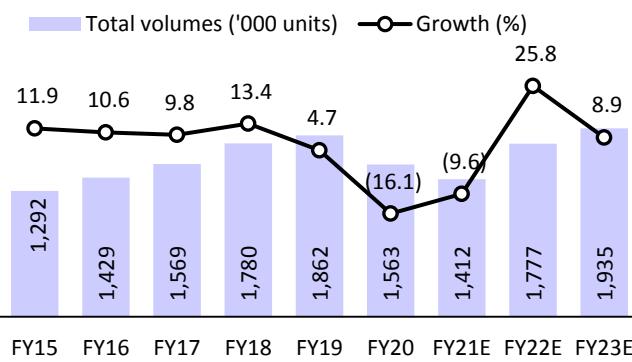
Story in charts: Expect 20% EPS CAGR over FY20–23E

Exhibit 1: Market share gains continue in most segments

	FY16	FY17	FY18	FY19	FY20	FY21 YTD
Mini	79.8	67.8	71.3	72.3	79.0	83.8
Compact	42	46.2	52.2	56.4	57.4	52.6
Compact - Sedan	58.1	54.8	61.8	57.9	61.9	61.6
Mid-size	25.2	32.8	30	25.8	25.8	18.9
UV	25.6	38.2	38.8	38.2	31.4	27.4
Domestic PV	46.8	47.4	50.1	51.2	51.2	48.2

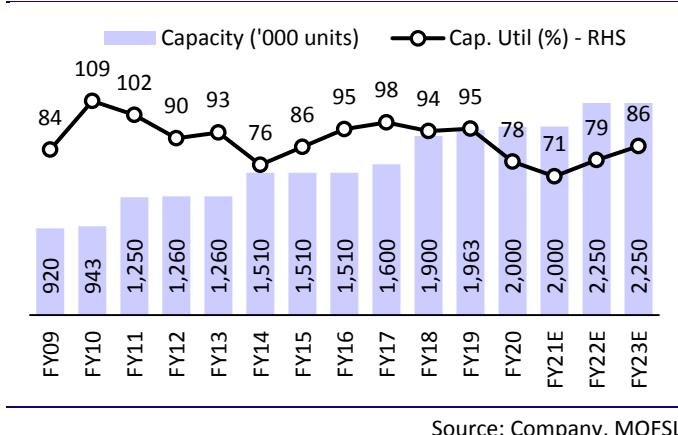
Source: Company, MOFSL

Exhibit 2: Trend in volume and growth over FY20–22E



Source: Company, MOFSL

Exhibit 3: MSIL to operate at low utilization



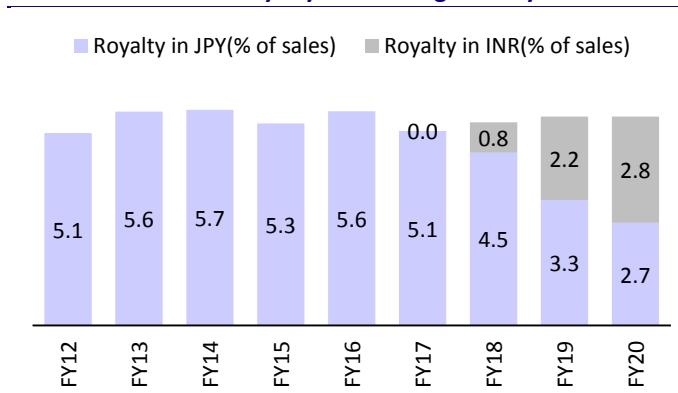
Source: Company, MOFSL

Exhibit 4: Trend in product mix (INR)



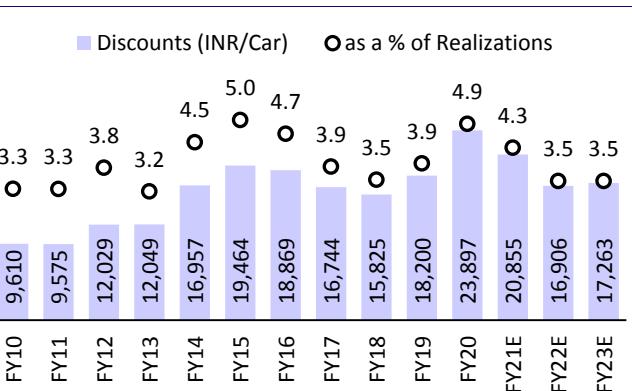
Source: Company, MOFSL

Exhibit 5: JPY-based royalty to reduce gradually



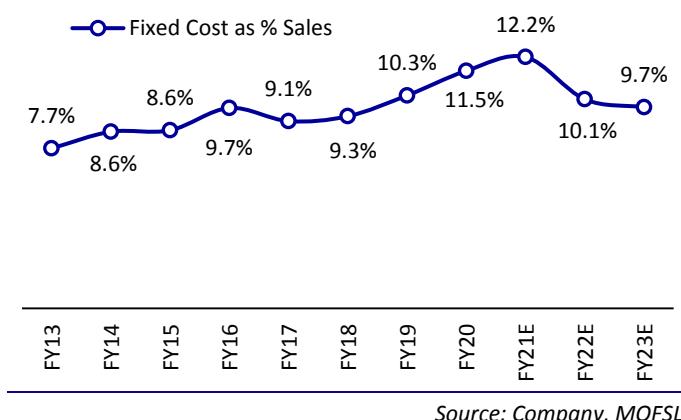
Source: Company, MOFSL

Exhibit 6: Discounts to normalize in FY21



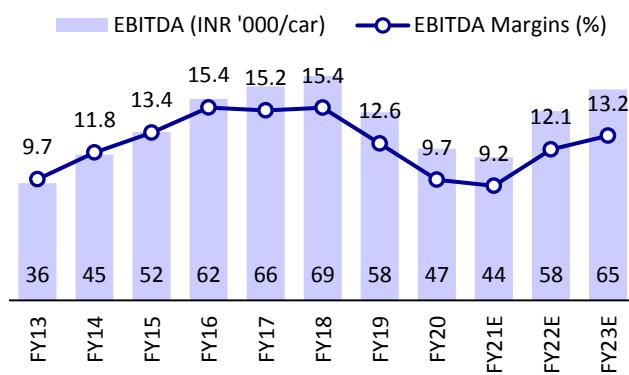
Source: Company, MOFSL

Exhibit 7: Fixed cost as a percentage of sales



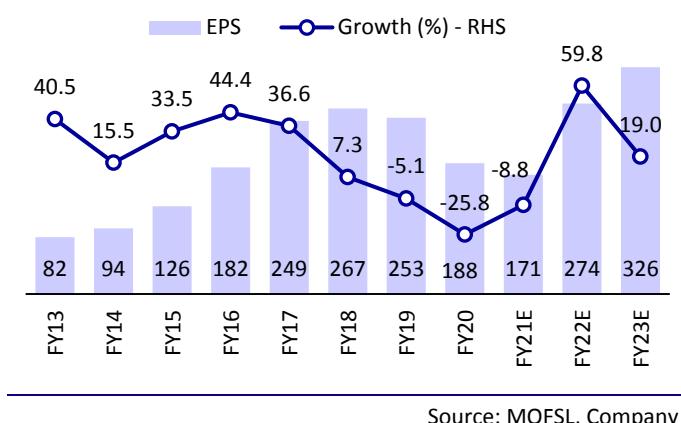
Source: Company, MOFSL

Exhibit 8: EBITDA margin and EBITDA per car



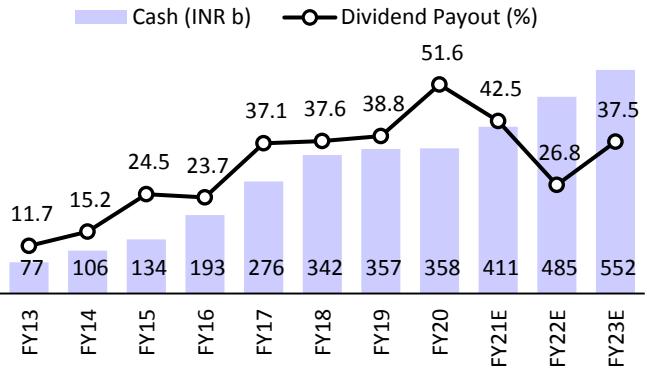
Source: Company, MOFSL

Exhibit 9: EPS (INR) and growth in EPS



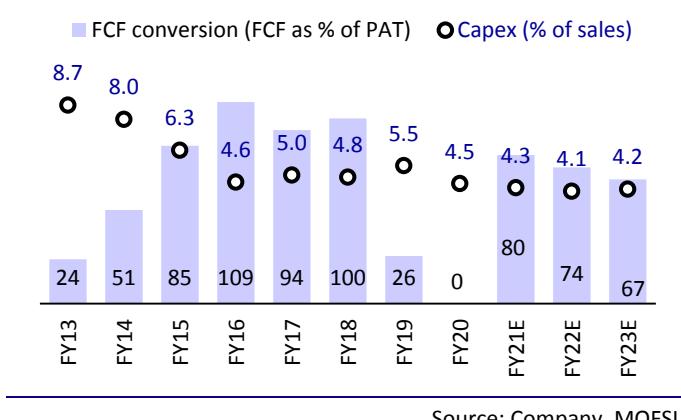
Source: MOFSL, Company

Exhibit 10: Dividend payout (%) and cash balance (INR b)



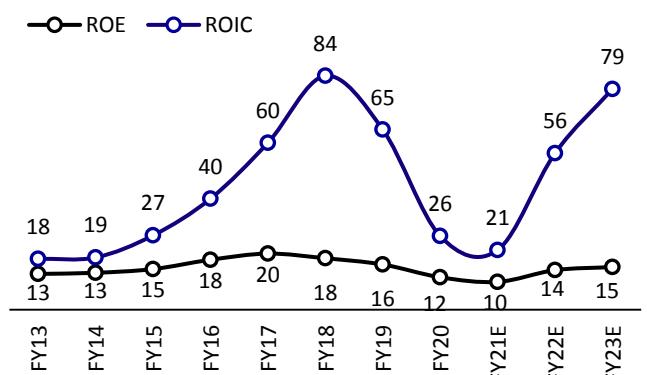
Source: MOFSL, Company

Exhibit 11: FCF generation to recover from FY22 (INR b)



Source: Company, MOFSL

Exhibit 12: RoE v/s RoIC (%)



Source: Company, MOFSL

Exhibit 13: Snapshot of revenue model

'000 units	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
A1/LCVs	0	1	10	24	22	24	28	31
Growth (%)				138.0	-8.8	8.0	20.0	10.0
% of domestic volume	0.0	0.1	0.6	1.4	1.5	1.8	1.7	1.7
MPV (Vans)	143	152	155	179	118	100	125	135
Growth (%)	11.2	6.0	2.1	15.1	-33.7	-15.8	25.0	8.0
% of domestic volume	11.0	10.5	9.4	10.2	8.1	7.5	7.4	7.3
A2 (other hatchbacks)	779	832	936	987	881	823	1,029	1,116
Growth (%)	6.8	6.7	12.5	5.5	-10.8	-6.5	25.0	8.5
% of domestic volume	59.7	57.6	56.6	56.3	60.3	61.8	61.2	60.8
A3 (Dzire, Ciaz)	288	264	299	300	204	166	234	267
Growth (%)	18.3	-8.4	13.1	0.3	-31.9	-18.9	41.3	14.2
% of domestic volume	22.1	18.3	18.1	17.1	14.0	12.5	13.9	14.6
UVs (Ertiga, Compact SUV)	94	196	254	264	235	219	266	287
Growth (%)	38.4	107.3	29.6	4.1	-10.9	-6.9	21.3	7.9
% of domestic volume	7.2	13.6	15.3	15.1	16.1	16.5	15.8	15.6
Total domestic	1,305	1,445	1,654	1,754	1,460	1,331	1,682	1,836
Growth (%)	11.5	10.7	14.5	6.1	-16.7	-8.8	26.3	9.2
% of total volume	91.3	92.1	92.9	94.2	93.5	94.3	94.7	94.9
Exports	124	124	126	109	102	81	95	99
Growth (%)	2	0	2	-14	-6	-21	17	4
% of total volume	9	8	7	6	7	6	5	5
Total volumes	1,429	1,569	1,780	1,862	1,563	1,412	1,777	1,935
Growth (%)	10.6	9.8	13.4	4.7	-16.1	-9.6	25.8	8.9
ASP (INR '000/unit)	403	434	448	462	484	481	483	0
Growth (%)	4.1	7.7	3.3	3.0	4.8	-0.7	0.5	0.0
Net sales (INR b)	575	680	798	860	756	679	858	0

Source: MOFSL, Company

Financials and valuations

Income Statement		(INR m)						
Y/E March		FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Op. Income		680,348	797,627	860,203	756,106	678,908	858,163	954,293
Change (%)		18.2	17.2	7.8	-12.1	-10.2	26.4	11.2
EBITDA		103,517	123,122	107,993	73,026	62,299	103,695	125,848
Change (%)		16.5	18.9	-12.3	-32.4	-14.7	66.4	21.4
EBITDA margin (%)		15.2	15.4	12.6	9.7	9.2	12.1	13.2
Depreciation		26,021	27,579	30,189	35,257	31,416	34,436	37,764
EBIT		77,496	95,543	77,804	37,769	30,883	69,258	88,085
EBIT margin (%)		11.4	12.0	9.0	5.0	4.5	8.1	9.2
Interest		894	3,457	758	1,329	850	750	750
Other Income		23,001	20,455	25,610	34,208	34,471	36,261	38,147
EO Expense		0	2,507	-2,000	0	0	0	0
Def Revenue Exp./Others		0	0	0	0	0	0	0
PBT		99,603	110,034	104,656	70,648	64,504	104,770	125,482
Tax		26,101	32,816	29,650	14,142	13,109	23,138	28,206
Effective tax Rate (%)		26.2	29.8	28.3	20.0	20.3	22.1	22.5
PAT		73,502	77,218	75,006	56,506	51,396	81,632	97,276
Change (%)		37.0	5.1	-2.9	-24.7	-9.0	58.8	19.2
% of Net Sales		11.0	9.9	9.0	7.9	8.0	10.0	10.8
Adj. PAT		73,502	78,977	73,573	56,506	51,396	81,632	97,276
Change (%)		37.0	7.4	-6.8	-23.2	-9.0	58.8	19.2
Balance Sheet		(INR m)						
Y/E March		FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds								
Share Capital		1,510	1,510	1,510	1,510	1,510	1,510	1,510
Reserves		362,801	416,063	459,905	482,860	512,397	572,170	633,015
Net Worth		364,311	417,573	461,415	484,370	513,908	573,681	634,526
Loans		4,836	1,108	1,496	1,063	1,063	1,063	1,063
Deferred Tax Liability		4,662	5,589	5,640	5,984	5,984	5,984	5,984
Capital Employed		373,809	424,270	468,551	491,417	520,955	580,728	641,573
Application of Funds								
Gross Fixed Assets		186,595	214,239	263,293	297,969	330,343	365,343	405,343
Less: Depreciation		53,668	80,649	109,215	140,157	171,573	206,009	243,773
Net Fixed Assets		132,927	133,590	154,078	157,812	158,770	159,334	161,570
Capital WIP		12,523	21,259	16,001	13,374	10,000	10,000	10,000
Investments		284,810	352,902	365,150	364,676	364,676	364,676	364,676
Curr. Assets, Loans		77,392	81,841	89,815	84,390	126,876	212,017	284,485
Inventory		32,622	31,608	33,257	32,149	29,760	37,618	41,832
Sundry Debtors		11,992	14,618	23,104	21,270	13,020	16,458	18,302
Cash & Bank Balances		138	711	1,789	211	53,336	127,181	193,592
Loans & Advances		978	2,878	5,126	5,246	5,246	5,246	5,246
Others		31,662	32,026	26,539	25,514	25,514	25,514	25,514
Current Liab. & Prov.		133,843	165,322	156,493	128,835	139,368	165,299	179,159
Sundry Creditors		83,673	104,970	96,330	74,941	87,421	110,503	122,882
Others		42,328	50,055	51,069	44,889	44,889	44,889	44,889
Provisions		7,842	10,297	9,094	9,005	7,058	9,907	11,388
Net Current Assets		-56,451	-83,481	-66,678	-44,445	-12,492	46,718	105,326
Appl. of Funds		373,809	424,270	468,551	491,417	520,955	580,728	641,573

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)							
Adjusted EPS	243.3	261.4	243.6	187.1	170.1	270.2	322.0
Consol. EPS	248.6	266.7	253.3	188.0	171.4	273.8	326.0
Cash EPS	334.8	358.0	353.2	304.7	275.4	387.8	451.0
Book Value per Share	1,206	1,382	1,527	1,603	1,701	1,899	2,101
DPS	75.0	80.0	80.0	80.0	60.0	60.0	100.0
Div. payout (%)	37.1	37.6	38.8	51.6	42.5	26.8	37.5
Valuation (x)							
Consol. P/E	30.9	28.8	30.4	40.9	44.9	28.1	23.6
Cash P/E	23.0	21.5	21.8	25.3	27.9	19.8	17.1
EV/EBITDA	19.7	16.0	18.1	26.8	30.6	17.7	14.0
EV/Sales	3.1	2.5	2.4	2.7	3.0	2.3	2.0
P/BV	6.4	5.6	5.0	4.8	4.5	4.1	3.7
Dividend Yield (%)	1.0	1.0	1.0	1.0	0.8	0.8	1.3
FCF Yield (%)	3.0	3.4	0.8	0.0	1.8	2.6	2.8
Profitability ratios (%)							
RoIC	60.0	84.1	64.7	26.5	21.4	56.3	79.3
RoE	20.2	18.5	16.3	11.7	10.0	14.2	15.3
RoCE	26.9	27.3	22.1	14.6	12.5	18.2	19.7
Turnover ratios							
Debtors (Days)	6	7	10	11	7	7	7
Inventory (Days)	21	17	16	17	18	18	18
Creditors (Days)	65	70	59	51	67	68	68
Work. Cap. (Days)	-39	-46	-33	-23	-42	-42	-42
Asset Turnover (x)	1.8	1.9	1.8	1.5	1.3	1.5	1.5
Leverage ratio							
Net Debt/Equity (x)	-0.7	-0.8	-0.8	-0.7	-0.8	-0.8	-0.9

Cash Flow Statement

Y/E March	2017	2018	2019	2020	2021E	2022E	(INR m) 2023E
Profit before Tax	99,603	110,034	104,656	70,948	64,504	104,770	125,482
Interest	894	3,457	758	1,329	850	750	750
Depreciation	26,021	27,579	30,189	35,257	31,416	34,436	37,764
Direct Taxes Paid	-23,214	-30,550	-31,428	-14,357	-13,109	-23,138	-28,206
(Inc.)/Dec. in WC	21,940	28,058	-13,196	-25,659	21,172	14,636	7,802
Other Items	-22,451	-20,728	-25,047	-33,467	-34,471	-36,261	-38,147
CF from Oper. Activity	102,793	117,850	65,932	34,051	70,362	95,192	105,444
(Inc.)/Dec. in FA	-33,723	-38,653	-47,000	-33,990	-29,000	-35,000	-40,000
Free Cash Flow	69,070	79,197	18,932	61	41,362	60,192	65,444
(Pur.)/Sale of Invest.	-58,056	-44,168	11,617	29,351	34,471	36,261	38,147
CF from Inv. Activity	-91,779	-82,821	-35,383	-4,639	5,471	1,261	-1,853
Change in Net Worth	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	2,527	-3,728	388	-524	0	0	0
Interest Paid	-1,095	-3,464	-732	-1,342	-850	-750	-750
Dividends Paid	-12,725	-27,268	-29,134	-29,134	-21,859	-21,859	-36,431
CF from Fin. Activity	-11,293	-34,460	-29,478	-31,000	-22,709	-22,609	-37,181
Inc./(Dec.) in Cash	-279	569	1,071	-1,588	53,124	73,845	66,411
Add: Op. Balance	391	130	699	1,770	211	53,336	127,181
Closing Balance	112	699	1,770	182	53,335	127,181	193,592

E: MOFSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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