

Q1FY22 result review  
and earnings revision

## Automobiles

Target price: Rs5,242

## Earnings revision

(%)	FY22E	FY23E
Sales	↑ 2.4	↑ 2.2
EBITDA	↓ 5.7	↓ 2.1
EPS	↓ 6.8	↓ 1.1

## Target price revision

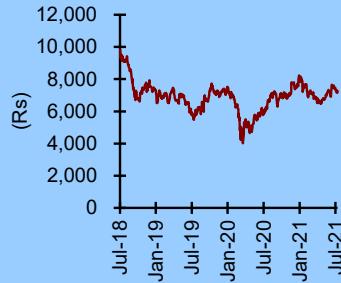
Rs5,242 from Rs5,339

## Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	56.4	56.4	56.4
Institutional investors	38.7	38.2	38.6
MFs and other	7.8	7.5	7.5
FIs/Banks	7.5	7.4	8.0
FII	23.4	23.3	23.1
Others	4.9	5.4	5.0

Source: BSE

## Price chart



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## INDIA



## Maruti Suzuki India

SELL

Maintained

Rs7,165

## Slip in retail market share hurts pricing power

Maruti Suzuki India's (MSIL) Q1FY22 earnings were a miss on consensus estimates as EBITDA margin shrunk ~367bps QoQ to 4.6%. Lack of pricing power amidst rising market share pressures is clearly visible (Q1 retail market share dropped to ~40%). Continued product onslaught by competition in SUVs (e.g. Tata HBX, M&M XUV700 launch in Aug/Sep'21) is likely enhance consumer interest, hence keep MSIL's discounts elevated and price hikes limited. Consumer preferences continue to rapidly move towards SUV body type (Q1 industry wholesale volume contribution: >39%), which impacts MSIL both at volume and revenue market share levels. Further, the impact of the higher SUV mix on margins is also reflected by Q1 performance of TTMT (India PV) / MSIL (ASP/unit and margins of Rs824k / Rs502k and 4.1% / 4.6% respectively). Maintain SELL.

- ▶ **Key highlights of the quarter:** Revenues in Q1FY22 declined 26% QoQ to ~Rs178bn due to lower volumes, while ASP was up ~3% at ~Rs502.5k/vehicle (~1.6% price hike taken in Apr'21). EBITDA margins were dragged due to by lower gross margin (~90bps QoQ /RM impact of 3.5%) along with higher employee costs (higher 224bps) which had ~Rs300mn of covid-related expenses. PAT was down ~62% at Rs4.4bn despite higher other income (up 465% QoQ). The partial capitalization of the new Gujarat line also had negative impact on fixed costs.
- ▶ **Key takeaways from earnings call:** Management indicated: **a)** demand recovery in Jul'21 is underway (bookings at 80-85% of Q4FY21 levels; however; July'21 retail trends were similar to Jun'21); retail market share declined due to: i) higher bookings in CNG and lower availability due to covid (~5% impact), ii) rising SUV category share; iii) lower stock levels at start of lockdown; **b)** share of first-time buyers fell to 45.4% in Q1 against 46.9% YoY; **c)** increase in commodity prices impacted Q1 margins by 3.5% QoQ and the lag effect of increases could continue for a few more quarters; **d)** MSIL took price hike of ~1.6% in Q1 and a small hike in Jul'21 to partially offset cost inflation (management remains wary of price hikes and its impact on demand and market share); **d)** capex for FY22: Rs45bn; export revenues for Q1 stood at Rs22.9bn, and discount per vehicle at Rs14k; and **e)** network inventory levels have increased to ~138k units currently (27 days: normal: 135k-140k units) with an order backlog of ~170k units in Q1.
- ▶ **Maintain SELL:** Globally, both customers and regulators are opting to align towards BEVs over ICE (e.g. Europe/China), and companies that are facilitating the change are being rewarded by investors by way of superior valuations. Hence, MSIL's potential inertia to not proactively pivot towards EVs could aid challengers in gaining higher customer mindshare, eventually EV market share. We prune our EPS estimates (-6.8% / -1.1% FY22E / FY23E, respectively), maintain our target multiple at 24x FY23E core EPS of Rs154 (earlier: Rs157), and add cash per share of Rs1,549 to arrive at our target price of Rs5,242 (earlier: Rs5,339). Maintain **SELL**.

Market Cap	Rs2164bn/US\$29.1bn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	MRTI.BO /MSIL IN	Revenue (Rs bn)	756.1	703.3	848.0	987.2
Shares Outstanding (mn)	302.1	Net Profit (Rs bn)	56.5	42.3	51.3	71.7
52-week Range (Rs)	8233/6043	EPS (Rs)	187.1	140.1	170.0	237.4
Free Float (%)	43.6	% Chg YoY	(24.7)	(25.1)	21.4	39.6
FII (%)	23.1	P/E (x)	38.3	51.2	42.1	30.2
Daily Volume (US\$/'000)	84,346	CEPS (Rs)	303.9	240.4	283.8	361.7
Absolute Return 3m (%)	9.0	EV/E (x)	25.0	35.3	26.7	19.0
Absolute Return 12m (%)	15.1	Dividend Yield (%)	0.8	0.6	0.8	1.1
Sensex Return 3m (%)	6.1	RoCE (%)	15.4	10.6	12.9	16.8
Sensex Return 12m (%)	37.8	RoE (%)	11.9	8.5	9.7	12.6

Please refer to important disclosures at the end of this report

**Table 1: Q1FY22 result review**

(Rs mn, year ending March 31)

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Volumes (units)</b>	3,53,614	76,599	362	4,92,235	-28
Realizations (Rs/unit)	5,02,545	5,36,104	-6	4,88,053	3
<b>Total operating income</b>	<b>1,77,707</b>	<b>41,065</b>	<b>333</b>	<b>2,40,237</b>	<b>-26</b>
Raw material costs	1,32,905	29,364	353	1,77,509	-25
Employee costs	10,643	7,303	46	9,003	18
Other expenditures	25,948	13,032	99	33,814	-23
<b>Total operating expenses</b>	<b>1,69,496</b>	<b>49,699</b>	<b>241</b>	<b>2,20,326</b>	<b>-23</b>
<b>EBITDA</b>	<b>8,211</b>	<b>-8,634</b>	<b>NC</b>	<b>19,911</b>	<b>-59</b>
<b>EBITDA margin (%)</b>	<b>4.6</b>	<b>-21.0</b>	<b>2565 bps</b>	<b>8.3</b>	<b>-367 bps</b>
Depreciation & Amortization	7,432	7,833	-5	7,410	0
<b>EBIT</b>	<b>779</b>	<b>-16,467</b>	<b>NC</b>	<b>12,501</b>	<b>-94</b>
<b>EBIT margin (%)</b>	<b>0.4</b>	<b>-40.1</b>	<b>4054 bps</b>	<b>5.2</b>	<b>-477 bps</b>
Other income	5,078	13,183	-61	898	465
Interest costs	222	173	28	324	-31
<b>PBT</b>	<b>5,635</b>	<b>-3,457</b>	<b>NC</b>	<b>13,075</b>	<b>-57</b>
Exceptional Items	-	-	-	-	-
Taxes	1,227	-963	NC	1,414	-13
<b>PAT</b>	<b>4,408</b>	<b>-2,494</b>	<b>NC</b>	<b>11,661</b>	<b>-62</b>

Source: Company data, I-Sec research

**Table 2: Estimate revision**

(Rs bn, year ending March 31)

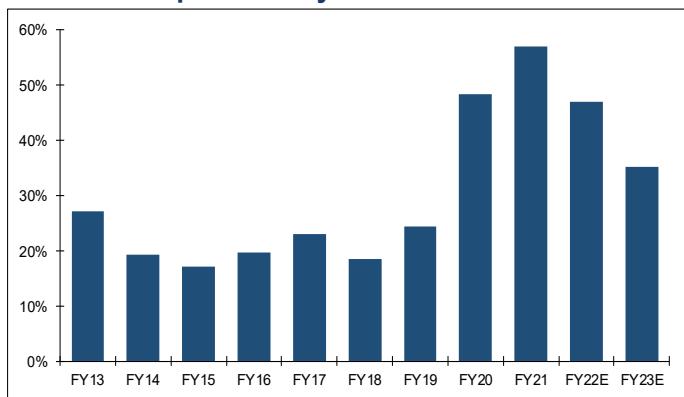
	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	828.5	848.0	2.4	966.0	987.2	2.2
EBITDA	75.1	70.8	(5.7)	100.6	98.5	(2.1)
PAT	55.1	51.3	(6.8)	72.5	71.7	(1.1)
EPS (Rs)	182.5	170.0	(6.8)	240.1	237.4	(1.1)

Source: Company data, I-Sec research

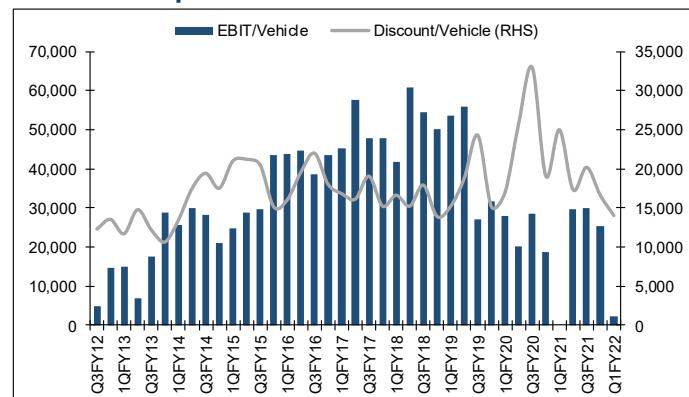
**Table 3: MSIL's product segment trends and expectations**

	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	1,44,209	1,54,303
<b>Total</b>	<b>17,79,574</b>	<b>18,62,449</b>	<b>15,38,285</b>	<b>14,19,535</b>	<b>16,50,829</b>	<b>18,30,524</b>
<b>Toyota Transfer</b>			25,002	38,326	75,000	1,00,000
<b>Total (Sales+Transfer)</b>	<b>17,79,574</b>	<b>18,62,449</b>	<b>15,63,287</b>	<b>14,57,861</b>	<b>17,25,829</b>	<b>19,30,524</b>

Source: Industry data, I-Sec research

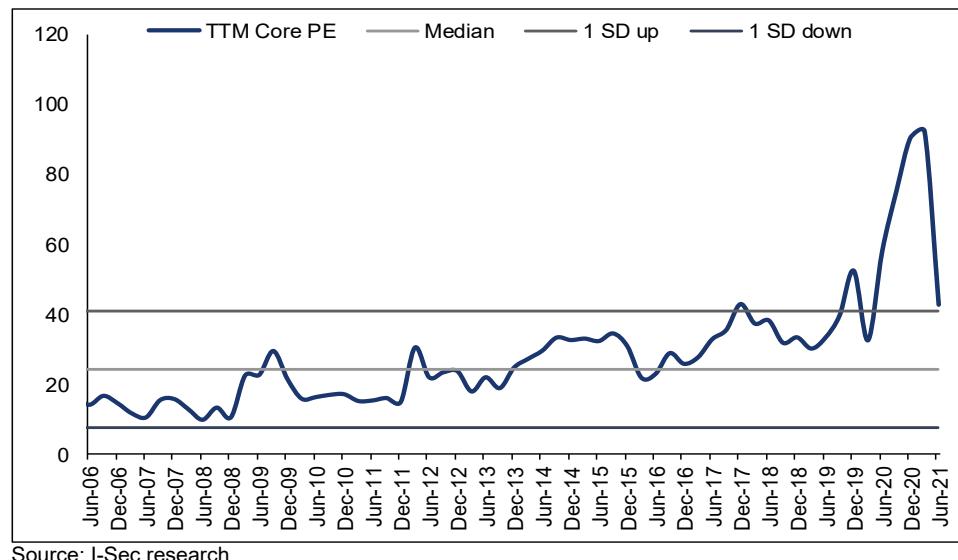
**Chart 1: Share of other income significantly higher vis-à-vis the previous cycle**

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 trends remain elevated



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	8.5%	9.5%	8.9%	8.0%	6.4%	4.4%	3.5%	9.3%	18.5%
EBIT	9.9%	8.1%	4.6%	0.1%	-3.9%	-8.1%	-6.5%	17.3%	62.3%
EPS	11.6%	11.1%	8.6%	4.2%	-0.4%	-1.5%	-1.1%	8.3%	30.2%

Source: I-Sec research

## Outlook and valuations

Globally, both customers and regulators are opting to align towards BEVs over ICE (e.g. Europe/China), and companies that are facilitating the change are being rewarded by investors by way of superior valuations. Hence, MSIL's potential inertia to not proactively pivot towards EVs could aid challengers in gaining higher customer mindshare, eventually EV market share. We prune our EPS estimates (-6.8% / -1.1% FY22E / FY23E, respectively), maintain our target multiple at 24x FY23E core EPS of Rs154 (earlier: Rs157), and add cash per share of Rs1,549 to arrive at our target price of Rs5,242 (earlier: Rs5,339). Maintain **SELL**.

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

Reverse Valuation	FY23 EPS	FY23PE	Target Price
Core EPS	154	36	5,616
Cash per Share	1,549		1,549
<b>Total</b>			<b>7,165</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	FY21	FY22E	FY23E
<b>Total Volumes*</b>	<b>15,38,285</b>	<b>14,19,535</b>	<b>16,50,829</b>	<b>18,30,524</b>
<b>Total Op. Income (Sales)</b>	<b>7,56,106</b>	<b>7,03,325</b>	<b>8,48,010</b>	<b>9,87,205</b>
<b>Operating Expenses</b>	<b>6,83,080</b>	<b>6,49,872</b>	<b>7,77,224</b>	<b>8,88,707</b>
<b>EBITDA</b>	<b>73,026</b>	<b>53,453</b>	<b>70,786</b>	<b>98,498</b>
% margins	9.7%	7.6%	8.3%	10.0%
Depreciation & Amortisation	35,257	30,315	34,360	37,545
<b>EBIT</b>	<b>37,769</b>	<b>23,138</b>	<b>36,426</b>	<b>60,953</b>
Other Income	34,208	29,464	31,125	32,526
Gross Interest	1,329	1,008	1,297	988
<b>PBT</b>	<b>70,648</b>	<b>51,594</b>	<b>66,254</b>	<b>92,491</b>
Less: Taxes	14,142	9,297	14,907	20,810
Less: Extraordinaries	0	0	0	0
<b>Net Income (Reported)</b>	<b>56,506</b>	<b>42,297</b>	<b>51,347</b>	<b>71,680</b>
<b>Net Income (Adjusted)</b>	<b>56,506</b>	<b>42,297</b>	<b>51,347</b>	<b>71,680</b>

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

**Table 7: Balance sheet**

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>ASSETS</b>				
Current Assets	72,086	1,01,110	93,177	1,14,711
Cash & cash eqv.	211	30,364	8,654	8,091
Current Liabilities & Provisions	1,11,885	1,56,179	1,47,938	1,54,406
<b>Net Current Assets</b>	<b>-39,799</b>	<b>-55,069</b>	<b>-54,761</b>	<b>-39,695</b>
<b>Investments</b>				
Goodwill	0	0	0	0
<b>Net Fixed Assets</b>	<b>1,71,186</b>	<b>1,64,665</b>	<b>1,75,306</b>	<b>1,87,760</b>
Capital Work-in-Progress	13,374	11,923	11,923	11,923
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>5,77,419</b>	<b>6,24,939</b>
<b>LIABILITIES</b>				
Borrowings	1,613	5,438	4,938	4,938
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	5,45,385	5,92,905
<b>Net Worth</b>	<b>4,84,370</b>	<b>5,13,668</b>	<b>5,46,895</b>	<b>5,94,415</b>
<b>Total Liabilities</b>	<b>5,13,636</b>	<b>5,44,692</b>	<b>5,77,419</b>	<b>6,24,939</b>

Source: Company data, I-Sec research

**Table 10: 5-stage DuPont analysis**

(Rs mn, year ending March 31)

All figures in %	FY20	FY21	FY22E	FY23E
Tax Burden (Adj. PAT/PBT)	80.0	82.0	77.5	77.5
Interest Burden (PBT/EBIT)	187.1	223.0	181.9	151.7
EBIT Margin (EBIT/Sales)	5.2	3.4	4.4	6.4
Asset Turnover (Sales/Total Assets)	145.3	128.6	146.3	159.1
Financial Leverage (Total Assets/Equity)	106.0	106.0	105.8	105.3
<b>ROE</b>	<b>11.9</b>	<b>8.5</b>	<b>9.7</b>	<b>12.6</b>

Source: Company data, I-Sec research

**Table 8: Cashflow statement**

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Cashflow before working capital changes</b>	<b>88,418</b>	<b>70,475</b>	<b>85,706</b>	<b>1,09,226</b>
Working Capital Changes	(28,625)	45,423	(22,018)	(15,629)
<b>Operating Cashflow</b>	<b>59,793</b>	<b>1,15,898</b>	<b>63,689</b>	<b>93,597</b>
Capital Commitments	(36,364)	(23,794)	(45,000)	(50,000)
<b>Free Cashflow</b>	<b>23,429</b>	<b>92,104</b>	<b>18,689</b>	<b>43,597</b>
<b>Cashflow from Investing Activities</b>	<b>(42,192)</b>	<b>(86,298)</b>	<b>(66,778)</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>(21,709)</b>	<b>(563)</b>

Source: Company data, I-Sec research

**Table 9: Key ratios**

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
EPS (Basic)	187.1	140.1	170.0	237.4
EPS (Adjusted)	187.1	140.1	170.0	237.4
Cash EPS	303.9	240.4	283.8	361.7
Dividend per share (DPS)	60.0	45.0	60.0	80.0
BVPS (Adjusted)	1,603.9	1,700.9	1,810.9	1,968.3
<b>Growth Ratios (%)</b>				
Total Op. Income (Sales)	(12.1)	(7.0)	20.6	16.4
EBITDA	(33.6)	(26.8)	32.4	39.1
Net Income (Adjusted)	(24.7)	(25.1)	21.4	39.6
EPS (Adjusted)	(24.7)	(25.1)	21.4	39.6
Cash EPS	(12.8)	(20.9)	18.0	27.4
BVPS (Adjusted)	5.0	6.0	6.5	8.7
<b>Valuation Ratios (x)</b>				
P/E (Adjusted)	38.3	51.2	42.1	30.2
P/BV (Adjusted)	4.5	4.2	4.0	3.6
EV/EBITDA	25.0	35.3	26.7	19.0
EV/Sales	2.5	2.8	2.3	2.0
<b>Return/Profitability Ratios (%)</b>				
EBITDA Margin	9.7	7.6	8.3	10.0
Net Income Margin (Adjusted)	7.8	6.2	6.3	7.5
RoCE	15.4	10.6	12.9	16.8
RoNW	11.9	8.5	9.7	12.6
Dividend Payout Ratio	32.1	32.1	35.3	33.7
Dividend Yield	0.8	0.6	0.8	1.1
<b>Solvency/Wkg. Cap. Ratios (x)</b>				
Net D/E	(70.0)	(53.4)	(50.3)	(49.5)
Debt/EBITDA	2.2	10.2	7.0	5.0
EBIT/Interest	28.4	23.0	28.1	61.7
Current Ratio	0.6	0.6	0.6	0.7
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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