

**MARUTI SUZUKI** | Auto & Auto Components*Heavy demand in short term, all eyes on post festive demand***LKP****Q2 results better than expectations**

MSIL's Q2 FY21 revenues grew by 10.4% yoy and 380% qoq to ₹187.4 bn on the back of strong recovery in volumes, which grew by 16.2% yoy driven by pent-up demand stemming from personal mobility, Realizations fell by 5.6%/6.3% yoy and qoq respectively, due to shift to low value hatchbacks and absence of diesel variants. EBITDA margins stood at 10.3%, 80bps higher yoy on lower selling and operating expenses and higher capacity utilization, which was partly offset by adverse product mix, higher commodity prices and currency fluctuations. Discounting in the quarter was at ₹17.3K v/s ₹25 k yoy. PAT for the quarter. On the back of lower other income (34% down yoy) and higher tax expenses(76.3% up yoy), PAT moved down by 1% yoy to ₹13.7bn.

**Demand outlook remains strong**

MSIL highlighted that current demand remains strong driven by robust rural sentiment, innovative financing schemes and healthy festive sales in Kerala & West. Overall, retail sale growth during Q2 stood at 4% yoy (320k units). Retail sales during the Navratri period posted healthy yoy growth (96.7k deliveries vs. 76k in FY20) and likely to remain robust till Dec'20. While share of rural has reached 41%, urban markets have also started witnessing pick-up in sales during Oct'20. Currently, demand for hatchback is higher primarily driven by moderation in income levels, telescoping of demand and focus on functionality aspect by customers. There is 40% jump in enquiries for pre-owned cars. However, replacement segment has slowed down (from 26% H1 FY20 to 18.8% in H1 FY21) implying that first time buyers for MSIL have increased by 5% in H1 to 48% leading to robust demand for the hatchback portfolio. Driven by BS6 cost-up and reduction in diesel-petrol price differential, industry diesel share continued to decline during H1FY20 (17.8% vs.29.5% in FY20). Inventory at start of Oct was 120k units.

The management stated that demand outlook for the Diwali to December period remains good but it is difficult to predict demand for the period beyond December given the uncertainty around Covid-19. Car buying is a discretionary purchase and affordability and sentiments will play key role in demand recovery. We remain sanguine on the demand outlook considering a decent model pipeline from MSIL and reducing proliferation of Covid-19.

**Model launch pipeline remains robust**

MSIL's recent launches – S-presso and XL6 have been well received by the customers. Also, it has a decent product pipeline, which will help it to counter competition from new entrants. Some of the expected launches are Jimny, Wagon R electric, 6/7-seater WagonR (to compete with Renault Triber, which has received a good response), Futuro-e, Vitara, 800cc small engine model etc. Apart from new models, we are expecting refreshes and CNG variants of most models to fill up the gap created by diesel discontinuation.

**Margin recovery to be led by price hikes and higher utilization of capacities**

MSIL reported margin growth in Q2 at 10.3%, 80 bps up yoy, despite strong headwinds of currency, commodities and adverse product mix. It was driven by >80% utilization rates and lower other expenses (including marketing and advertising expenses). Going forward, with higher volume growth, bigger model launches, increasing capacity utilization levels and BS 6 related price hikes, we expect margins to grow further in H2 and FY 22E.

YE Mar	FY 19	FY 20	FY 21E	FY 22E
Total Sales (₹ bn)	860.2	756.1	708.3	905.8
EBITDA Margins (%)	13.2	10.2	8.2	13.0
PAT Margins (%)	9.0	7.9	6.3	10.1
EPS (₹)	248.4	187.1	141.2	288.9
P/E (x)	27.4	36.3	48.1	23.5
P/BV(x)	4.4	4.2	4.1	3.7
EV/EBITDA (x)	18.6	28.1	37.1	18.2
ROE(%)	16.3	11.7	8.6	15.7
Dividend yield (%)	1.5	1.5	1.5	1.5

Rating	Buy
Current Market Price (₹)	6,796
12 M Price Target (₹)	7,802
Potential upside (%)	15

**Stock Data**

FV (₹)	5
Market Cap Full (₹ bn)	2,053
Market Cap Free Float (₹ bn)	903
52-Week High / Low (₹)	4,001 / 7,570
BSE Code / NSE Symbol	532500 / MARUTI
Reuters / Bloomberg	MRTI.BO / MSIL IN

**Shareholding Pattern (%)**

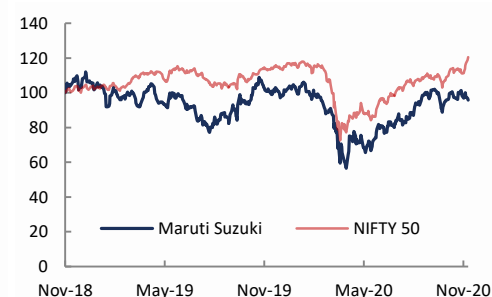
	Sep-20	Jun-20	Mar-20	Dec-19
Promoter	56.37	56.28	56.28	56.21
FPIs	21.86	21.47	21.63	23.18
MFs	7.51	7.34	7.06	6.01
FI's / Insurance	8.88	9.31	9.23	9.44
Others	5.38	5.60	5.80	5.16

Source: BSE

**Price Performance (%)**

(%)	1M	3M	6M	1YR
Maruti Suzuki	-3.8%	2.8%	46.0%	-5.7%
Nifty 50	6.0%	12.1%	36.5%	6.1%

\* To date / current date : November 10, 2020

**Maruti Suzuki vs Nifty 50**

## Quarterly Financial Snapshot

All fig in ₹ mn	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
Total income	187,445	41,065	356.5	169,853	10.4
Raw material costs	131,143	29,364	346.6	120,994	8.4
Employee costs	8,268	7,303	13.2	8,384	(1.4)
Other expenses	28,698	13,032	120.2	24,412	17.6
EBITDA	19,336	(8,634)	(324.0)	16,063	20.4
EBITDA margins %	10.3%	-21.0%	3130 bps	9.5%	80 bps
Depreciation & Amortization	7,659	7,833	(2.2)	9,261	(17.3)
Interest expenses	224	173	29.5	282	(20.6)
Other income	6,025	13,183	(54.3)	9,200	(34.5)
PBT	17,478	(3,457)	(605.6)	15,720	11.2
Tax	3,762	(963)	N/A	2,134	76.3
Adjusted PAT	13,716	(2,494)	NA	13,586	1.0
Exceptional items	-	-	NA	-	NA
Reported PAT (₹)	13,716	(2,494)	NA	13,586	1.0

Source: Company, LKP Research

## Outlook and Valuation

MSIL reported good set of numbers in Q2, driven by strong bounce back in volumes, low discounts, increased demand for hatchbacks, lower A&P expenses. Going forward, we believe that increasing festive demand, newer launches higher capacity utilization rates and price hikes should trigger a superior second half and ensuing year. With ability to combat competition and wide presence in the rural markets which is growing at a higher pace than urban markets, (which is also showing a strong pick up since Oct) the company is poised for a healthy growth here-on. We therefore maintain our BUY rating on the stock with a target of ₹7,802.

Per unit parameters (₹)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY 20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
Net Realisation/unit	441,545	452,311	465,362	476,488	449,265	446,353	480,098	449,961
Material Cost/unit	327,634	336,408	349,988	357,635	343,263	332,223	383,347	333,587
Employee cost per unit	20,556	17,818	21,339	24,781	19,823	21,282	95,341	21,031
EBITDA/unit	45,052	49,368	50,890	47,479	48,063	40,164	(112,717)	49,185
PAT/unit	34,745	39,164	35,681	40,158	35,778	33,548	(32,559)	34,889

Source: Company, LKP Research

## Consolidated Financials

Income Statement				
YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
<b>Total Revenues</b>	<b>860,203</b>	<b>756,106</b>	<b>708,265</b>	<b>905,756</b>
Raw Material Cost	602,542	531,566	511,483	621,369
Employee Cost	32,549	33,839	45,758	50,221
Other Exp	116,340	118,892	96,304	121,981
<b>EBITDA</b>	<b>109,993</b>	<b>73,026</b>	<b>55,320</b>	<b>112,784</b>
EBITDA Margin(%)	13.2	10.2	8.2	13.0
Other Income	25,610	34,208	35,000	39,000
Depreciation	30,189	35,257	32,456	37,256
<b>EBIT</b>	<b>105,414</b>	<b>71,977</b>	<b>57,864</b>	<b>114,528</b>
EBIT Margin(%)	12.7	10.0	8.6	13.2
Interest	758	1329	1000	1200
<b>PBT</b>	<b>104,656</b>	<b>70,648</b>	<b>56,864</b>	<b>113,328</b>
PBT Margin(%)	12.6	9.9	8.4	13.1
Tax	29,650	14,142	14,216	26,065
<b>PAT</b>	<b>75,006</b>	<b>56,506</b>	<b>42,648</b>	<b>87,263</b>
PAT Margins (%)	9.0	7.9	6.3	10.1
Minority interest	0	0	0	0
Exceptional items	0	0	0	0
<b>Adj PAT</b>	<b>75,006</b>	<b>56,506</b>	<b>42,648</b>	<b>87,263</b>
Adj PAT Margins (%)	9.0	7.9	6.3	10.1

Key Ratios				
YE Mar	FY 19	FY 20	FY 21E	FY 22E
<b>Per Share Data (₹)</b>				
Adj. EPS	248.4	187.1	141.2	288.9
CEPS	348.3	303.9	248.7	412.3
BVPS	1527.9	1603.9	1648.6	1841.1
DPS	100.8	100.8	100.8	100.8
<b>Growth Ratios(%)</b>				
Total revenues	6.3	-13.7	-5.9	28.4
EBITDA	-8.8	-33.6	-24.2	103.9
PAT	-2.9	-24.7	-24.5	104.6
EPS Growth	-2.9	-24.7	-24.5	104.6
<b>Valuation Ratios (X)</b>				
PE	27.4	36.3	48.1	23.5
P/CEPS	19.5	22.4	27.3	16.5
P/BV	4.4	4.2	4.1	3.7
EV/EBITDA	18.6	28.1	37.1	18.2
<b>Operating Ratios (Days)</b>				
Inventory days	20.1	22.1	17.0	17.0
Receivable Days	10.2	10.8	8.0	8.0
Payables day	0.7	0.5	2.4	2.4
Net Debt/Equity (x)	0.00	0.00	0.00	0.00
<b>Profitability Ratios (%)</b>				
ROCE	11.1	0.7	(2.3)	6.3
ROE	16.3	11.7	8.6	15.7
Dividend payout	40.6	53.9	71.4	34.9
Dividend yield	1.5	1.5	1.5	1.5

Balance Sheet				
YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
<b>Equity and Liabilities</b>				
Equity Share Capital	1,510	1,510	1,510	1,510
Reserves & Surplus	459,905	482,860	496,374	554,502
Total Networth	461,415	484,370	497,884	556,012
Total debt	0	0	0	0
Net Deferred Tax	5,640	5,984	5,984	5,984
Other long term liabilities	20,365	21,153	21,153	21,153
Long term provisions	395	1,066	1,066	1,066
<b>Current Liab &amp; Prov</b>				
Short term borrowings	1,496	1,063	1,363	1,663
Other current liabilities	37,433	30,148	30,148	30,148
Trade payables	96,330	74,941	73,892	71,158
Total provisions	6,244	6,796	6,796	6,796
<b>Total Equity &amp; Liabilities</b>	<b>629,318</b>	<b>625,521</b>	<b>638,286</b>	<b>693,980</b>
<b>Assets</b>				
Net block	149,567	147,618	152,191	162,935
Capital WIP	16,001	13,374	15,374	23,374
Intangible Assets	4,511	4,067	4,067	4,067
Non current Investments	314,695	352,488	353,988	365,988
Other non current assets	340	358	358	358
<b>Total fixed assets</b>				
Current investments	50,455	12,188	13,188	20,188
Cash and Bank	1,789	211	121	2,547
Inventories	33,257	32,149	35,033	44,262
Trade receivables	23,104	21,270	22,168	28,463
Loan, Advances & others	160	169	169	169
Other current assets	14,851	18,287	18,287	18,287
<b>Total current Assets</b>	<b>123,616</b>	<b>84,274</b>	<b>88,966</b>	<b>113,916</b>
<b>Total Assets</b>	<b>629,316</b>	<b>625,521</b>	<b>638,286</b>	<b>693,980</b>

Cash Flow				
YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
<b>PBT</b>	<b>104,656</b>	<b>70,648</b>	<b>56,864</b>	<b>113,328</b>
Depreciation	30,189	35,257	32,456	37,256
Interest	758	1,329	1,000	1,200
Chng in working capital	(13,196)	(25,659)	(4,831)	(18,258)
Tax paid	(31,428)	(14,357)	(14,216)	(26,065)
<b>Cash flow from operations (a)</b>	<b>65,932</b>	<b>34,051</b>	<b>71,273</b>	<b>107,460</b>
Capital expenditure	(47,447)	(31,936)	(39,000)	(56,000)
Chng in investments	10,292	27,637	(2,500)	(19,000)
Other investing activities	1,772	(340)	0	0
(Inc)/dec in Intangible assets	1,701	369	0	0
(Inc)/dec in Other non curr assets	(1,166)	(1,669)	0	0
<b>Cash flow from investing (b)</b>	<b>(35,383)</b>	<b>(4,639)</b>	<b>(41,500)</b>	<b>(75,000)</b>
<b>Free cash flow (a+b)</b>	<b>30,549</b>	<b>29,412</b>	<b>29,773</b>	<b>32,460</b>
Equity raised/(repaid)	0	0	0	0
Inc/dec in borrowings	388	(433)	300	300
Dividend paid (incl. tax)	(29,134)	(29,134)	(29,134)	(29,134)
Other financing activities	(732)	(1,433)	(1,000)	(1,200)
<b>Cash flow from financing (c)</b>	<b>(29,478)</b>	<b>(31,000)</b>	<b>(29,834)</b>	<b>(30,034)</b>
<b>Net chng in cash (a+b+c)</b>	<b>1,071</b>	<b>(1,588)</b>	<b>(61)</b>	<b>2,426</b>
<b>Closing cash &amp; cash equivalents</b>	<b>1,770</b>	<b>182</b>	<b>121</b>	<b>2,547</b>

Source: Company, LKP Research

## DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.Lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.