

BSE Code: 532500

NSE Code: MARUTI

Reuters Code: MRTI.NS

Bloomberg Code: MSIL:IN

Maruti Suzuki India Ltd (MSIL), India's largest passenger car company accounting for ~40% share of the domestic passenger car market, is a subsidiary of the Japanese automaker, Suzuki Motor Corporation. Established in 1981, the company is engaged in the business of manufacturing, purchase and sale of motor vehicles and spare parts (automobiles). With five plants in Gurgaon and Manesar regions of Haryana and a production capability of ~1.5 mn units per annum, MSIL offers ~200 variants across the industry segments like passenger cars, utility vehicles and vans.

Investment Rationale

Healthy performance in Q3FY15; outlook seems brighter: MSIL showcased a healthy performance in Q3FY15 with 15.5% YoY growth in standalone net sales followed by a 17.8% YoY rise in net profit. The decent performance was supported by 12.4% YoY growth in sales volume as the company sold 323,911 vehicles during the quarter with major contribution from the domestic market (sold 295,202 vehicles in India). Improving business and consumer sentiments coupled with the company's focus towards new launches, makes the company's prospects brighter going forward.

Robust pipeline of new vehicles to revive growth in FY16E and in the succeeding years: MSIL's earnings growth visibility appears high in FY16E and in the following years on the back of its wide dealership network, a long reach in rural areas and a strong pipeline of new vehicles. We expect a revival in the company's volume growth to be led by the launch of several new vehicles in FY16 with Maruti S-Cross, Suzuki Cervo, Maruti XA Alpha and Maruti YRA to name a few.

Eyeing to increase its PV market share to ~45% in FY15E: Despite challenging times and intense competition across segments, MSIL is targeting ~15% sales volume growth in FY15E given the launch of a slew of new cars in FY15, namely, Ertiga limited edition (in Jul'14), Ciaz (Oct'14) and Refreshed Swift Dzire (Feb'15); which would give a significant boost to MSIL's volume growth in FY15 and would help increase its market share in the passenger vehicle (PV) market to ~45%. As MSIL is lined-up with new launches and equally focused towards product up-gradation, we believe the company is well placed to take benefit from an upturn in PV demand, given its leadership position in the segment.

Wide network and entry into newer market to improve earning visibility - Given the strong brand positioning, expanding portfolio, and extensive rural/semi-urban network, MSIL is well positioned among its peers. Rural sales continued to grow at a strong pace of ~16% in FY14 while accounting for ~32% of total volumes. While expanding its reach to 93,000 villages in FY14 from around 44,000 villages in FY13, MSIL further plans to increase its presence in the rural market. Besides, on the back of entry into new markets like Africa, Latin America and Middle East, Maruti is targeting 10% export growth in FY15E.

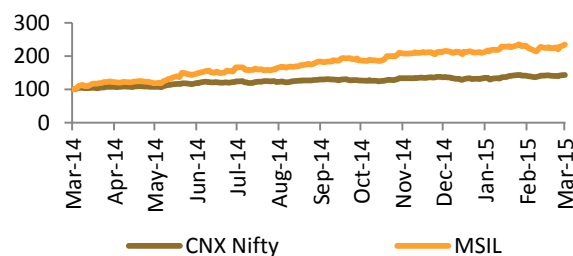
Market Data

Rating	BUY
CMP (₹)	3,650.6
Target (₹)	4,229
Potential Upside	~15.8%
Duration	Long Term
Face Value (₹)	5.0
52 week H/L (₹)	3,789.7/1,680.0
Adj. all time High (₹)	3,789.7
Decline from 52WH (%)	3.7
Rise from 52WL (%)	117.3
Beta	0.8
Mkt. Cap (₹bn)	1,102.8
Book Value (₹bn)	712.0

Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	443.0	444.5	511.2	603.2
EBITDA (₹bn)	43.3	52.0	62.2	77.0
Net Profit (₹bn)	24.7	28.5	34.7	44.0
EPS (₹)	81.7	94.4	114.8	145.8
P/E (x)	44.7	38.7	31.8	25.0
P/BV (x)	5.8	5.1	4.7	4.3
EV/EBITDA (x)	25.5	21.2	17.8	14.3
ROCE (%)	15.9	16.9	18.6	21.6
ROE (%)	13.0	13.3	14.7	17.1

One year Price Chart



Shareholding Pattern	Dec'14	Sep'14	Diff.
Promoters	56.2	56.2	-
FII	22.0	21.7	0.3
DII	14.9	14.5	0.4
Others	6.9	7.6	(0.7)

MSIL is engaged in the business of manufacturing, purchase and sale of motor vehicles and spare parts (automobiles).

With a dominant position in small car segment, the company derives ~60% of its overall sales from the segment led by popular models like Alto, Wagon R and Swift.

Maruti Suzuki India Ltd – India’s largest passenger car company

MSIL, a subsidiary of the Japanese automaker, Suzuki Motor Corporation (which holds a 54.2% stake), is the largest passenger car company in India, accounting for ~40% share of the domestic passenger car market. The company is engaged in the business of manufacturing, purchase and sale of motor vehicles and spare parts (automobiles). The other activities of the company include facilitation of pre-owned car sales, fleet management and car financing. MSIL offers 14 brands and around 200 variants ranging from Alto 800 to the Life Utility Vehicle Maruti Suzuki Ertiga.

With dominant position in the small car segment, MSIL derives ~60% of its overall sales from the segment led by popular models like Alto, Wagon R and Swift. The company operates from two facilities in India (Gurgaon and Manesar) with an installed capacity of 1.5 mn units and is in the process of expanding its manufacturing capacity to 1.8 mn units by FY15E.

Currently, MSIL’s exports account for ~8% of its overall sales volume and is striving hard to expand its presence in the non-European countries (thereby reducing its dependency on the declining European markets). The company offers a full range of cars from entry level Maruti 800 & Alto to stylish hatchback Ritz, A-star, Swift, Wagon R, Estilo and sedans Dzire, SX4 and Sports Utility vehicle Grand Vitara.

In FY14, MSIL’s domestic sales rose just 0.3% to 10.5 lakh units while the entire PV industry fell 6.0% - its market share in the fiscal stood at 42.1%. In FY13, MSIL’s volumes were up 4.4% to 10.5 lakh units - market share stood at 39.1%. The company is living by its mission to provide a car for every individual, family, need, budget and Way of Life.

Full Suite of Offerings



Alto 800



Alto K10



Wagon R



Celerio



StingRay



Ritz



Swift



Dzire



SX4



Ertiga



Omni



Eco



Gpsy



Grand Vitara



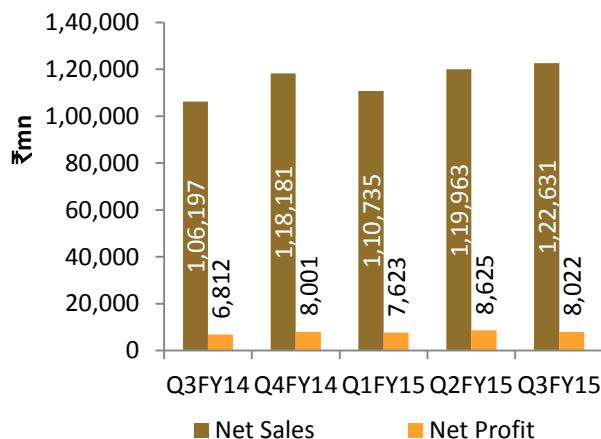
Ciaz

Robust growth in exports volume, up 43.8% YoY, coupled with 10.1% YoY increase in domestic sales intensified total sales volume in Q3FY15.

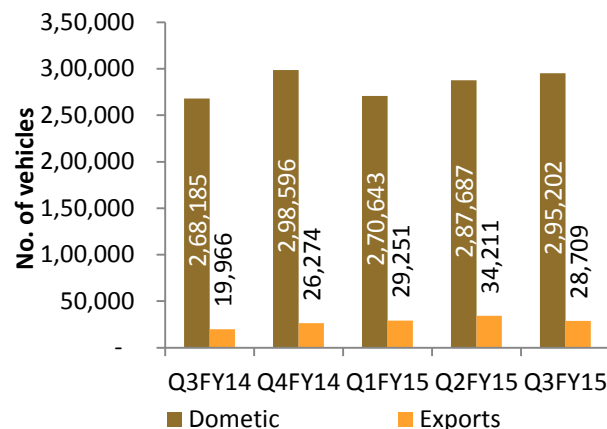
Showcased healthy performance in Q3FY15

MSIL reported a 15.5% YoY growth in its standalone net sales at ₹122,631 mn, during the third quarter ended December 2014, led by higher volumes. The company sold a total of 323,911 vehicles in Q3FY15, reflecting an uptick by 12.4% YoY. Sequentially, sales volume grew marginally by 0.6%. Robust growth in exports volume, up 43.8% YoY, coupled with 10.1% YoY increase in domestic sales intensified total sales volume in Q3FY15. Meanwhile, realisations grew 3.7% YoY to ₹4 lakh per unit, during the quarter under review.

Quarterly performance trend



Healthy sales volume boosted revenue growth

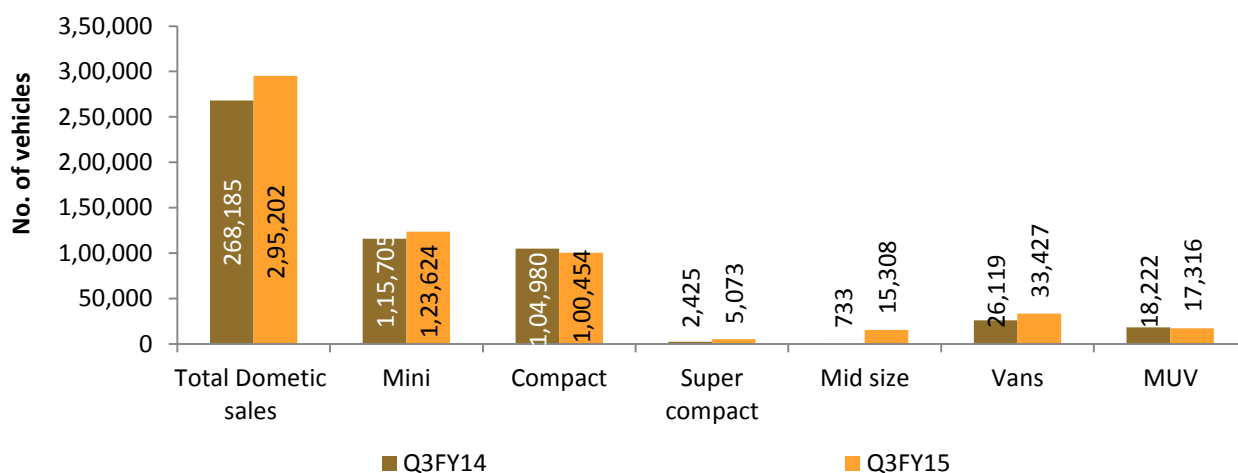


Despite a 27.9% and 16.0% YoY rise in taxation and depreciation costs, MSIL witnessed a 17.8% YoY growth in standalone net profit led by higher other income.

MISL reported a 17.6% YoY growth in EBITDA at ₹15,926 mn in Q3FY15 as the material cost (as a % of net sales) declined significantly by 150bps YoY to 72.0% in Q3FY15 compared to 73.5% in Q3FY14. EBITDA margin, on the other hand, grew merely by 30bps YoY to 12.7% impacted by higher other expenses (as a % of net sales) that expanded by 90bps YoY to 14.4% led by new launches.

Despite a 27.9% and 16.0% YoY rise in taxation and depreciation costs, MSIL witnessed a 17.8% YoY growth in standalone net profit at ₹8,022 mn on account of 10.3% YoY growth in other income at ₹129 mn. MSIL's thrust on new launches, improvement in economic scenario and high base of sales volume for Q4FY15 makes us positive about the company's prospects going forward.

Domestic sales volume trend

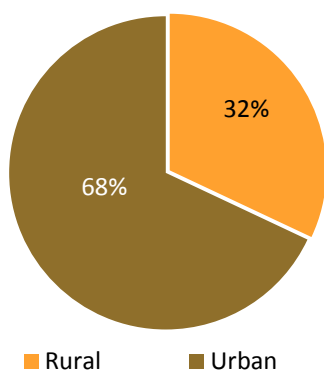


With equally focused towards product up-gradation and launch of new products embedded with latest technology, the company is targeting around 15% sales volume growth in FY15E.

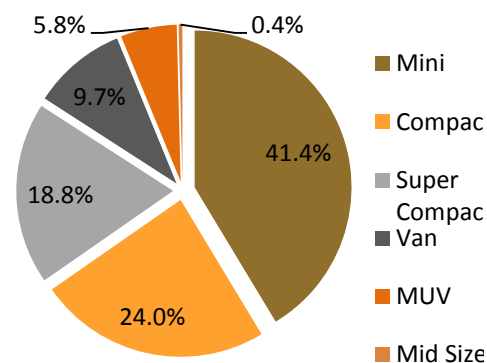
Riding high on new launches..

Given its leadership position in PV segment, MSIL remains an attractive play on the discretionary purchase recovery among consumers with consistently improving economic environment. With equally focused towards product up-gradation and launch of new products embedded with latest technology, the company is targeting around 15% sales volume growth in FY15E. Given the launch of an array of new cars in FY15, namely Ertiga limited edition (Jul'14), Ciaz (Oct'14) and Refreshed Swift Dzire (Feb'15), MSIL would be able to achieve its volume growth target. Further, the company's plans to launch a dozen models in the Indian market in FY16 and FY17 strengthens its outlook for the upcoming years. While MSIL is planning to launch Maruti S-Cross, Suzuki Cervo and Celerio diesel in Q1FY16, it is eyeing the launch of Maruti XA Alpha, Maruti YRA and Swift sport in Q2FY16. Furthermore, MSIL is planning to launch Maruti YBA iV4 and Maruti MR Wagon in Q4FY16. With these launches, we expect the volume growth of MSIL to revive in FY16 and in the succeeding years. Further, continuous up-gradation of existing products is expected to give the company a competitive advantage.

Domestic contribution regionwise in FY14



Domestic sales contribution segmentwise in FY14



MSIL continued to hold dominant market share on the back of its vast distribution network (~1200 dealerships in ~800 cities) and strong service network (~3000 workshops in ~1400 cities).

Strong distribution network augurs well for MSIL

MSIL continued to hold dominant market share in the country on the back of its vast distribution network (~1,200 dealerships in ~800 cities) and strong service network (~3,000 workshops in ~1,400 cities). Also, new product launches helped MSIL regain market share. We believe the next leg of growth is likely facilitated by the agreement signed with Suzuki's Gujarat facility, which would undertake contract manufacturing for MSIL, thus enabling MSIL to focus on R&D and developing the marketing infrastructure (distribution and marketing network). The management continued to indicate that the next leg of growth will come from network expansion. While concentrating on cities, MSIL has also expanded its presence to ~93,000 villages. Further, there is still significant scope to expand the marketing and distribution network for MSIL, which strengthens the company's outlook for the coming years.

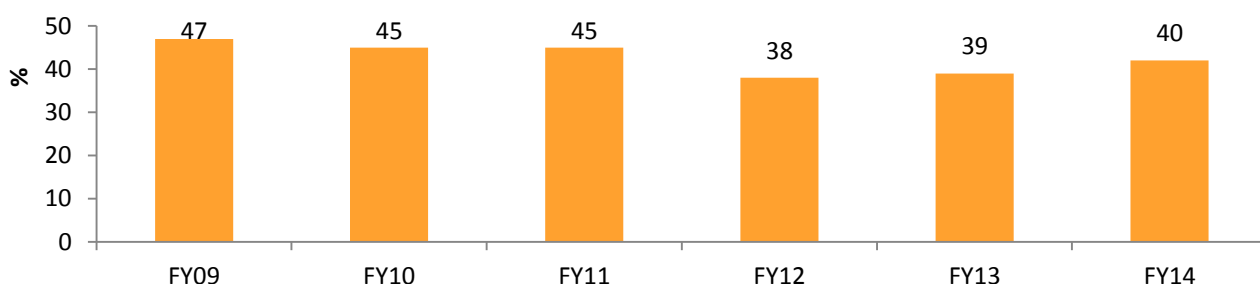
Continue to maintain its leadership position with ~40% PV market share

With the government mandating petrol diesel price gap rationalization, there has been a shift towards petrol cars, which in turn helped MSIL to regain its ~40% passenger vehicle market share in FY14. In FY13, the company's market share had reduced to ~39% from ~47% in FY09 due to the rising gap in petrol-diesel prices and shifting customer preference for diesel cars.

With strong brand equity, low cost of ownership, a complete product portfolio and a broad based dealer network, MSIL is well placed to sustain its PV market share over the medium term.

The market share was further lost on account of the persistent labor troubles at Manesar in FY12 and FY13, which halted production. With strong brand equity, low cost of ownership, a complete product portfolio and a broad based dealer network, MSIL is well placed to sustain its market share over the medium term. Reduction in interest rates and respite in petrol prices would drive recovery in demand going forward. In an intensely competitive industry struggling with demand slowdown, MSIL being the market leader has also been forced to give incentives in order to ward off competition and retain market share. However, we believe, the new products and improved product mix are effective in reducing the impact of the demand slowdown. Going ahead, as the industry recovers on the back of an improvement in overall economic scenario and interest rate cuts, discounting levels are likely to taper off, thereby aiding profitability.

MSIL's PV market share trend



With the entry into new markets like Africa, Latin America and Middle East, the company is targeting an export growth of ~10% in FY15E.

Exports to grow by ~10% in FY15E

MSIL, which contributes ~45% to Suzuki's global profits, aims to grow as a low-cost brand in order to target markets such as Africa. MSIL is striving hard to expand its market in the non-European countries thereby reducing its dependency on the deteriorating European markets. MSIL's strategy to expand itself as a global export hub for low priced products is logical. Currently, exports account for ~8% of its overall sales volume, with the major export oriented product being the A-Star. However, the recent quarters have seen a drop in the number owing to homologation changes in the major market, Algeria. Also, specific regional issues like Egypt and Sri Lanka have led to a decline in export numbers from ~148,000 in FY10 to ~101,000 in FY14. In FY14, MSIL's export volumes declined by 15.8% due to the weak global economic environment, regulatory changes in few countries and political unrest in some of the company's key markets. Going ahead, we believe that FY15 is likely to witness some improvement despite Suzuki's decision to stop the export of the A-star to Europe. Thus, with the entry into new markets like Africa, Latin America and Middle East, the company is targeting an export growth of ~10% in FY15E

In order to reduce the dependence on imports, MSIL has undertaken a strong localisation drive and been able to reduce the exposure from 19.5% to 16% in four or five quarters.

Aims to reduce import exposure to ~12% by the end of FY15E

With ~22% import exposure, MSIL's operating performance has improved considerably due to weak Japanese currency. The company's profit margins are set to show even stronger gains in the coming quarters as India's biggest car maker reaps an even greater windfall from cheaper yen-denominated imports of components.

In order to reduce the dependence on imports, Maruti has undertaken a strong localisation drive and been able to reduce the exposure from 19.5% to 16% in four or five quarters. With the management target to reduce the same to ~12%, we feel, going ahead, currency risk will reduce significantly. Other currency exposures like USD and euro have more or less a natural hedge due to exports and, thus, have little forex risk.

Balance Sheet (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Share Capital	1,510	1,510	1,510	1,510
Reserve and surplus	188,769	213,454	234,729	256,626
Net Worth	190,279	214,964	236,240	258,136
Minority Interest	106	122	122	122
Loans	8,170	8,749	8,322	9,244
Long term provisions	2,259	2,007	2,241	2,644
Deferred tax liability	4,176	5,962	5,962	5,962
Current Liabilities	69,719	82,310	94,674	111,715
Capital Employed	274,709	314,115	347,561	387,824
Fixed Assets	119,896	136,732	154,644	171,827
Long term investments	21,460	15,212	17,037	19,082
Loans and advances	12,865	16,540	22,009	30,495
Other non-current assets	8,946	95	95	95
Current Assets	111,542	145,537	153,775	166,326
Capital Deployed	274,709	314,115	347,561	387,824

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Net Sales	443,043	444,506	511,182	603,194
Expenses	399,764	392,467	449,021	526,189
EBITDA	43,278	52,039	62,161	77,005
Other Income	8,301	8,305	8,471	8,641
Depreciation	18,898	21,160	23,487	26,071
EBIT	32,682	39,184	47,145	59,575
Interest	1,978	1,846	1,809	1,899
Profit Before Tax	30,703	37,339	45,336	57,676
Tax	6,215	9,023	10,881	13,842
Share of P&L in associate/MI	206	213	213	213
Net Profit	24,693	28,529	34,669	44,047

Key Ratios (Consolidated)

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	9.8	11.7	12.2	12.8
EBIT Margin (%)	7.4	8.8	9.2	9.9
NPM (%)	5.6	6.4	6.8	7.3
ROCE (%)	15.9	16.9	18.6	21.6
ROE (%)	13.0	13.3	14.7	17.1
EPS (₹)	81.7	94.4	114.8	145.8
P/E (x)	44.7	38.7	31.8	25.0
BVPS(₹)	629.9	712.0	782.4	854.9
P/BVPS (x)	5.8	5.1	4.7	4.3
EV/Operating Income (x)	21.4	18.3	15.6	12.9
EV/EBITDA (x)	25.5	21.2	17.8	14.3

Valuation and view

We continue to remain bullish on the long-term growth prospects of MSIL, given its leadership position coupled with a strong product pipeline in the next few years. We expect MSIL's revenue to grow at ~16% CAGR in FY14-16E on demand recovery and new launches, which is expected to boost volumes. Further, the rationalisation of diesel-petrol price gap would provide a fillip to the company's petrol-dominated product portfolio. A strong product brand with an extensive distribution network places the company ahead of its peers.

At a current CMP of ₹3,650.6, the stock trades at P/E of 25.0x FY16E. We recommend 'BUY' with a target price of ₹4,229, which implies potential upside of ~15.8% to the CMP from a long term perspective.

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Contact Us:

Fund India

H.M Center, Second Floor, 29,
Nungambakkam High Road, Nungambakkam,
Chennai - 600 034.

T: +91 7667 166 166

Email: contact@fundsindia.com