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MSIL:IN

Operating profit misses estimates; Demand outlook remains strong

Maruti Suzuki India Limited (MSIL), a subsidiary of Suzuki Motor Corporation, is India's largest passenger car company, accounting for over 50% of the domestic car market.

Investment Rationale

Revenue broadly in-line with estimates:

Revenues increased by healthy 17.4%YoY during Q1FY18 driven by strong 13% YoY growth in volumes and 3% YoY rise in realisation on account of favourable product mix (Baleno, Vitara Brezza). Average discounts although were down 1% QoQ at Rs. 16,600, it increased 9% QoQ as the company increased promotion expenses to clear stock ahead of GST implementation.

Subdued operating performance:

EBITDA margin declined by 153bps qoq to 13.3% due to multiple factors a) higher raw material cost b) one-off GST transition cost and c) higher promotion expenses. MSIL compensated dealers for tax credit loss on inventory which impacted the margin by 50 bps. Moreover, promotional expenses/discounts were increased ahead of GST to clear stocks (30 bps). Notably, the management indicated that they are not looking to raise prices as they expect the commodity prices to stabilize at current levels. In-line with muted operating performance coupled with higher effective tax rate, net profit increased by just 4.4% YoY. Although, EBITDA margin is expected to decline in FY18 to 14.5% as production ramps-up from Gujarat plant, we expect it to recover to 15.2% in FY19E.

Volume growth to remain strong:

We expect healthy volume growth of 12% over FY17-19E driven by robust launch pipeline, huge order backlog, recovery in rural economy and low interest rate regime. The waiting period for Baleno/Brezza/Dzire stands at 16/16/20 weeks. Moreover, capacity constraints are expected to ease as Gujarat plant ramps-up production (production stood at 24,000 units in Q1FY18; full year expected at 150,000). The company is also rapidly expanding its dealership network NEXA which now has 262 outlets and contributes 20% to sales. The company has also launched NEXA service workshop at Gurugram and is aiming at 300 NEXA workshops by FY2020.

Valuation: The company's strong volume CAGR of 12% will drive Sales/PAT CAGR of 17%/19% over FY17-19E. Further, MSIL's leadership position in the domestic automotive industry, strong product pipeline and a pan India distribution network, will help in sustaining premium valuations. Hence, we recommend BUY rating on the stock with a target price (TP) of Rs. 8,580 based on target multiple of 25x FY19EPS.

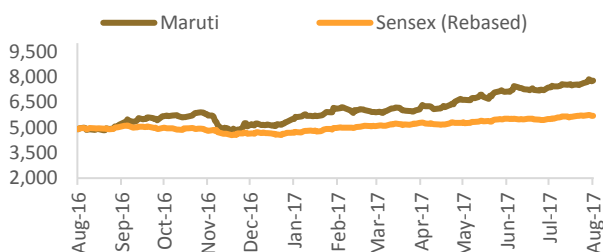
Market Data

Rating	BUY
CMP (Rs.)	7,779
Target (Rs.)	8,580
Potential Upside	10%
Duration	Long Term
Face Value (Rs.)	5
52 week H/L (Rs.)	7,920/4,770
Adj. all time High (Rs.)	7,920
Decline from 52WH (%)	1.8
Rise from 52WL (%)	63.1
Beta	0.7
Mkt. Cap (Rs.Cr)	234,979

Fiscal Year Ended

Y/E	FY16	FY17	FY18E	FY19E
Revenue (Rs.Cr)	57,746	68,035	79,746	93,775
Adj. Net profit (Rs.Cr)	4,571	7,338	8,264	10,367
Adj. EPS (Rs.)	151.4	243.0	273.6	343.2
Adj. P/E (x)	51.4	32.0	28.4	22.7
P/BV (x)	8.7	6.5	5.7	4.9
ROE (%)	18.0	23.2	21.3	23.2

One year Price Chart



Shareholding Pattern	Jun-17	Mar-17	Chg.
Promoters	56.2	56.2	-
FII's	25.0	24.6	0.4
MFs/Insti	11.8	12.2	(0.4)
Public	2.9	2.8	0.1
Others	4.1	4.2	(0.1)

Maruti Suzuki India Ltd: Business overview

Maruti Suzuki India Limited (MSIL), a subsidiary of Suzuki Motor Corporation, is India's largest passenger car company, accounting for over 50% of the domestic car market. The company's product portfolio includes brands like Alto 800, Alto K10, Baleno, Celerio, Ciaz, Ertiga, Eeco, Gypsy, Ignis, Omni, Ritz, Sting-Ray, Swift, Swift DZire, SX4, s-Cross, Vitara Brezza and WagonR. The company's pact with its parent Suzuki Motor for Gujarat facility makes MSIL's business asset-light and enables the management to focus more on marketing.

Maruti's sales volumes

	Market	Q1 FY'18		Q1 FY'17		Growth
		Number	% to Total sales	Number	% to Total sales	
Total Sales	Domestic	368431	93.4 %	322340	92.5 %	14.3 %
	Exports	26140	6.6 %	26103	7.5 %	0.1 %
	Total Sales	394571	100%	348443	100%	13.2%
	Segments	Q1 FY'18		Q1 FY'17		Growth
		Number	% to Domestic sales	Number	% to Domestic sales	
Domestic Sales	Mini	103510	28.1 %	92723	28.8%	11.6 %
	Compact	155314	42.2 %	132225	41.0%	17.5%
	Super Compact	-	-	7796	2.4%	-
	Mid Size	15698	4.3 %	13690	4.2%	14.7%
	UVs	57125	15.5 %	39348	12.2%	45.2%
	Vans	35739	9.7 %	36558	11.3%	(2.2)%
	LCV	1045	0.3 %	-	-	-
	Domestic	368431	100%	322340	100%	14.3 %

Source: Company

Quarterly Financials (Standalone)

(Rs cr)	Q1FY18	Q1FY17	YoY Growth %	Q4FY17	QoQ Growth %
Sales	17,546	14,945	17.4	18,333	(4.3)
EBITDA	2,331	2,215	5.3	2,560	(8.9)
Margin (%)	13.3	14.8	(153)	14.0	(67)
Depreciation	684	638	7.2	701	(2.4)
EBIT	1,647	1,577	4.5	1,859	(11.4)
Interest	31	18	72.9	23	38.5
Other Income	683	488	39.9	449	52.0
Exceptional Items	-	-	-	-	-
PBT	2,299	2,047	12.3	2,285	0.6
Tax	742	556	33.5	575	29.2
Reported PAT	1,556	1,491	4.4	1,711	(9.0)
Adjustment	-	-	-	-	-
Adj PAT	1,556	1,491	4.4	1,711	(9.0)
No. of shares (cr)	30.2	30.2	-	30.2	-
EPS (Rs)	51.5	49.4	4.4	56.6	(9.0)

Source: Company, In-house research

Revenue broadly in-line with estimates

Revenues increased by healthy 17.4%YoY during Q1FY18 driven by strong 13% YoY growth in volumes and 3% YoY rise in realisation on account of favourable product mix (Baleno, Vitara Brezza). Average discounts although were down 1% QoQ at Rs. 16,600, it increased 9% QoQ as the company increased promotion expenses to clear stock ahead of GST implementation.

Subdued operating performance

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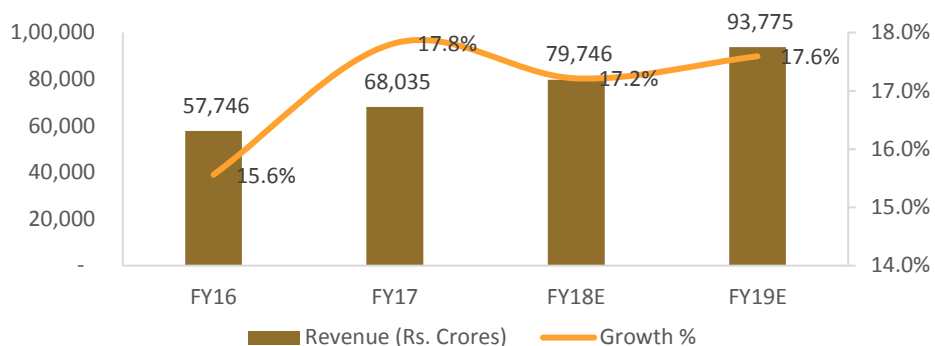
Volume growth to remain strong

We expect healthy volume growth of 12% over FY17-19E driven by robust launch pipeline, huge order backlog, recovery in rural economy and low interest rate regime. The waiting period for Baleno/Brezza/Dzire stands at 16/16/20 weeks. Moreover, capacity constraints are expected to ease as Gujarat plant ramps-up production (production stood at 24,000 units in Q1FY18; full year expected at 150,000). The company is also rapidly expanding its dealership network NEXA which now has 262 outlets and contributes 20% to sales. The company has also launched NEXA service workshop at Gurugram and is aiming at 300 NEXA workshops by FY2020.

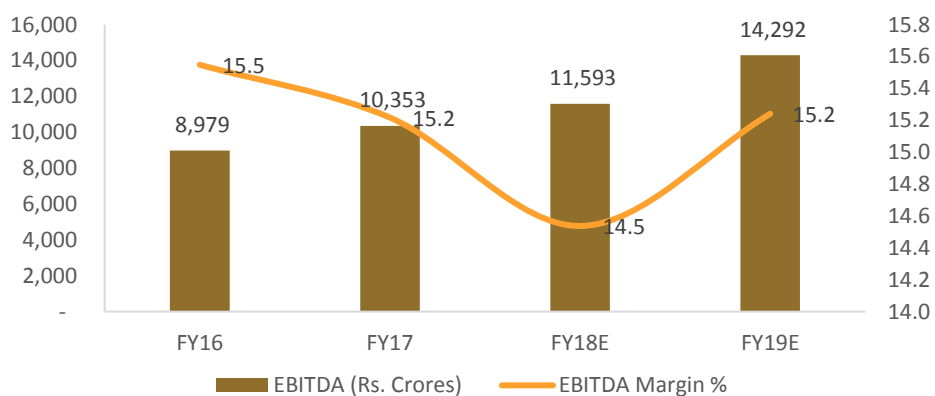
Valuation

Strong volume CAGR of 12% will drive Sales/PAT CAGR of 17%/19% over FY17-19E. Further, MSIL's leadership position in the domestic automotive industry, strong product pipeline and a pan India distribution network, will help in sustaining premium valuations. Hence, we recommend BUY rating on the stock with a target price (TP) of Rs. 8,580 based on target multiple of 25x FY19EPS.

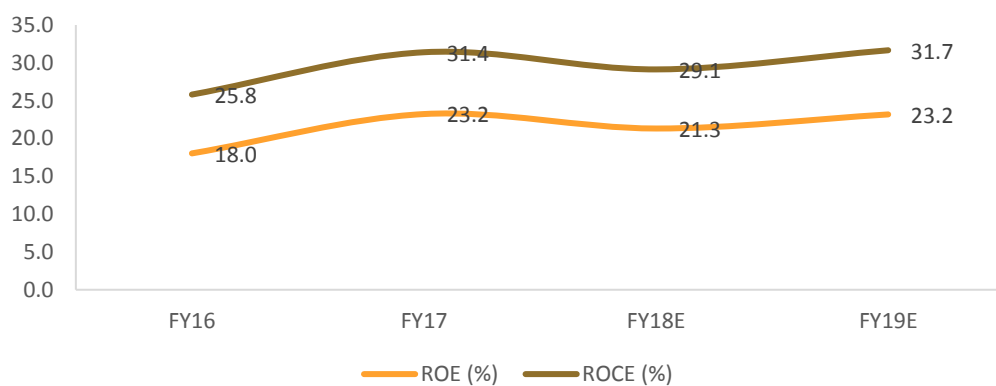
Revenue to grow at 17% CAGR over FY17-19E



Ebitda to grow at 17% CAGR over FY17-19E



Return ratios trend



Source: Company, In-house research

Key risks:

- Adverse forex movement
- Higher competitive intensity
- Increase in commodity prices

Profit & Loss Account (Standalone)

Y/E (Rs.Cr)	FY16	FY17	FY18E	FY19E
Total operating Income	57,746	68,035	79,746	93,775
EBITDA	8,979	10,353	11,593	14,292
Depreciation	2,824	2,602	2,783	2,994
EBIT	6,155	7,751	8,810	11,298
Interest cost	82	89	112	112
Other Income	462	2,280	2,622	3,015
Profit before tax	6,535	9,941	11,320	14,201
Tax	1,964	2,604	3,056	3,834
Profit after tax	4,571	7,338	8,264	10,367
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
Adjusted PAT	4,571	7,338	8,264	10,367
E/o income / (Expense)	-	-	-	-
Reported PAT	4,571	7,338	8,264	10,367

Balance Sheet (Standalone)

Y/E (Rs.Cr)	FY16	FY17	FY18E	FY19E
Paid up capital	151	151	151	151
Reserves and Surplus	26,856	36,020	41,203	47,945
Net worth	27,007	36,171	41,354	48,096
Minority Interest	-	-	-	-
Total Debt	231	484	484	484
Other non-current liabilities	424	1,127	1,127	1,127
Total Liabilities	27,662	37,782	42,965	49,707
Net fixed assets	12,768	13,289	15,007	15,713
Capital WIP	1,007	1,252	1,252	1,552
Goodwill	-	-	-	-
Investments	17,786	28,228	32,928	39,458
Net Current Assets	(4,783)	(6,152)	(7,387)	(8,181)
Deferred tax assets (Net)	(474)	(464)	(464)	(464)
Other non-current assets	1359	1627	1627	1627
Total Assets	27,662	37,782	42,965	49,707

Cash Flow Statement (Standalone)

Y/E (Rs.Cr)	FY16	FY17	FY18E	FY19E
Pre tax profit	6,535	9,941	11,320	14,201
Depreciation	2,824	2,602	2,783	2,994
Chg in Working Capital	1,466	1,343	1,374	1,405
Others	(482)	(2,190)	(2,510)	(2,903)
Tax paid	(1,910)	(2,332)	(3,056)	(3,834)
Cash flow from operating activities	8,433	9,364	9,911	11,862
Capital expenditure	(2,594)	(3,369)	(4,500)	(4,000)
Chg in investments	(4,672)	(10,443)	(4,700)	(6,530)
Other investing cashflow	89	2,704	2,622	3,015
Cash flow from investing activities	(7,176)	(11,108)	(6,579)	(7,515)
Equity raised/(repaid)	-	-	0	-
Debt raised/(repaid)	(235)	253	-	-
Dividend paid	(755)	(2,266)	(2,568)	(3,021)
Other financing activities	(246)	3,731	(626)	(716)
Cash flow from financing activities	(1,236)	1,718	(3,193)	(3,737)
Net chg in cash	21	(26)	139	610

Key Ratios (Standalone)

Y/E	FY16	FY17	FY18E	FY19E
Valuation(x)				
P/E	51.4	32.0	28.4	22.7
EV/EBITDA	26.2	22.7	20.3	16.4
EV/Net Sales	4.2	3.5	3.0	2.5
P/B	8.7	6.5	5.7	4.9
Per share data				
EPS	151.4	243.0	273.6	343.2
DPS	35.0	75.0	85.0	100.0
BVPS	894.3	1,197.7	1,369.0	1,592.1
Growth (%)				
Net Sales	15.6	17.8	17.2	17.6
EBITDA	33.7	15.3	12.0	23.3
Net profit	23.2	60.5	12.6	25.5
Operating Ratios				
EBITDA Margin (%)	15.5	15.2	14.5	15.2
EBIT Margin (%)	10.7	11.4	11.0	12.0
PAT Margin (%)	7.9	10.8	10.4	11.1
Return Ratios (%)				
RoE	18.0	23.2	21.3	23.2
RoCE	25.8	31.4	29.1	31.7
Turnover Ratios (x)				
Net Sales/GFA	2.0	2.2	2.3	2.4
Sales/Total Assets	1.5	1.5	1.4	1.5
Liquidity and Solvency Ratios (x)				
Interest Coverage	75.5	86.7	78.7	100.9
Debt/Equity	0.0	0.0	0.0	0.0

Rating criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* Maruti is a large cap company

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