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Maruti Suzuki India Ltd.

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Robust launch pipeline

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

Volumes to grow a strong CAGR of 12% over FY17-20E:

Richer product mix and robust volume growth drives 14.2% YoY growth in topline for MSIL in Q3FY18. MSIL continues to outperform the industry, which grew at 6.1% (PV's) in Q3FY18, with 11.3% YoY volume growth. This was driven by strong demand for its compact cars (Dzire, Baleno) and UV's (Vitara Brezza). Rural growth stood robust at 19% YoY and outpaced the urban growth. Net realization increased by 2.3% YoY led by richer mix. Average discount stood at Rs. 17,900/vehicle as against Rs. 19,000/vehicle in Q3FY17, however it increased sharply on a QoQ basis. Further, we expect healthy volume growth of 12% over FY17-20E driven by robust launch pipeline, huge order backlog and ramp-up of production from Gujarat (second phase to be commissioned by Jan-2019).

Margins to stay healthy:

EBITDA margin expanded by 102 bps YoY aided by favourable mix and cost reduction initiatives despite 30bps impact due to higher commodity prices. Although the company has taken a marginal price increase of .7% in January to offset higher commodity prices, the management expects some pressure on the margins in Q4FY18. Despite strong operating performance, MSIL reported muted PAT growth of 3.1% YoY in Q3FY18 due to lower other income and higher tax rate. Other income declined by 59% YoY as the company booked MTM losses due to hardening of G-sec yield. Going forward, we expect EBITDA margin to expand to 16%/16.3% in FY19E/20E driven by richer mix, lower discounts, operating leverage and ramp-up of Gujarat plant. Further, the management expects vendor localization in Gujarat plant to increase to 60-70% over the next four years as compared to 15% currently aiding in reduction in freight cost.

Royalty reduction:

All new models launched since Jan-2017 will attract lower royalty rate as compared to current rate of 5.3% due to revision in calculation method on new products (applicable on retrospective basis beginning from the launch of Ignis). This will help expand margins further, however, the management didn't quantify the impact as it awaits approval from the Suzuki board, limiting our ability to factor the same into our estimates.

Valuation: Healthy launch pipeline, continued strong traction for recent launches and increasing share of premium products will aid Maruti in sustaining its market share. Hence, we expect sales and PAT CAGR of 15.9% & 17.3%, respectively over FY17-20E. We roll over our TP to FY20 and mantain BUY rating on the stock with a revised target price (TP) of Rs. 9,849 based on 25x FY20E EPS.

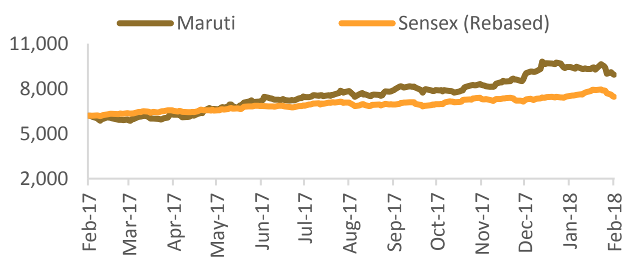
Market Data

Rating	**BUY**
CMP (Rs.)	8,946
Target (Rs.)	**9,849**
Potential Upside	10%
Duration	Long Term
Face Value (Rs.)	5
52 week H/L (Rs.)	10,000/5,804
Adj. all time High (Rs.)	10,000
Decline from 52WH (%)	10.5
Rise from 52WL (%)	54.1
Beta	0.9
Mkt. Cap (Rs.Cr)	270,241

Fiscal Year Ended

Y/E	FY17	FY18E	FY19E	FY20E
Revenue (Rs.Cr)	68,035	79,483	92,033	1,06,355
Adj. Net profit (Rs.Cr)	7,338	8,051	9,878	11,901
Adj. EPS (Rs.)	243.0	266.5	327.0	394.0
Adj. P/E (x)	36.8	33.6	27.4	22.7
P/BV (x)	7.5	6.6	5.7	4.9
ROE (%)	22.2	20.8	22.3	23.3

One year Price Chart



Shareholding Pattern	Dec-17	Sep-17	Chg.
Promoters	56.2	56.2	0.0
FII's	25.8	25.3	0.5
MFs/Insti	11.0	11.4	(0.4)
Public	3.2	3.1	0.1
Others	3.8	4.0	(0.2)

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, Vitarra Breeza 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	Q3 FY'18		Q3 FY'17		Growth
		Number	% to Total sales	Number	% to Total sales	
Total Sales	Domestic	400,586	92.9%	356,503	92.1%	12.4%
	Exports	30,526	7.08%	30,748	7.9%	(0.7)%
	Total Sales	**431,112**	**100%**	**387,251**	**100%**	**11.3%**

	Segments	Q3 FY'18		Q3 FY'17		Growth
		Number	% to Domestic sales	Number	% to Domestic sales	
Domestic Sales	Mini	102,840	25.7%	104,342	29.3%	-1.4%
	Compact	181,263	45.2%	142,842	40.1%	26.9%
	Super Compact	-	-	8,057	2.3%	-
	Mid Size	10,498	2.6%	15,504	4.3%	-32.3%
	Vans	37,654	9.4%	34,252	9.6%	9.9%
	UVs	65,730	16.4%	51,295	14.4%	28.1%
	LCV	2,601	0.6%	211	0.1%	-
	Domestic	**400,586**	**100%**	**356,503**	**100%**	**12.4%**

Source: Company

Quarterly Financials (Standalone)

(Rs cr)	Q3FY18	Q3FY17	YoY Growth %	Q2FY18	QoQ Growth %	9MFY18	9MFY17	YoY Growth %
Sales	**19,283**	**16,888**	**14.2**	**21,768**	**(11.4)**	**58,597**	**49,676**	**18.0**
EBITDA	**3,038**	**2,488**	**22.1**	**3,678**	**(17.4)**	**9,047**	**7,740**	**16.9**
Margin (%)	15.8	14.7	102bps	16.9	(114bps)	15.4	15.6	(14bps)
Depreciation	689	634	8.7	683	1.0	2055.4	1902	8.1
EBIT	**2,349**	**1,854**	**26.7**	**2,995**	**(21.6)**	**6,991**	**5,838**	**19.7**
Interest	26	29	(9.3)	15	75.3	73	67	8.7
Other Income	245	592	(58.6)	523	(53.2)	1,450.5	1,892.6	(23.4)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	**2,567**	**2,417**	**6.2**	**3,503**	**(26.7)**	**8,369**	**7,664**	**9.2**
Tax	768	673	14.3	1,019	(24.6)	2,529	2,031	24.6
Reported PAT	**1,799**	**1,745**	**3.1**	**2,484**	**(27.6)**	**5,840**	**5,633**	**3.7**
Adjustment	-	-	-	-	-	-	-	-
Adj PAT	**1,799**	**1,745**	**3.1**	**2,484**	**(27.6)**	**5,840**	**5,633**	**3.7**
No. of shares (cr)	30.2	30.2	-	30.2	-	30.2	30.2	-
EPS (Rs)	**59.6**	**57.7**	**3.1**	**82.2**	**(27.6)**	**193.3**	**186.5**	**3.7**

Source: Company, In-house research

Volumes to grow a strong CAGR of 12% over FY17-20E

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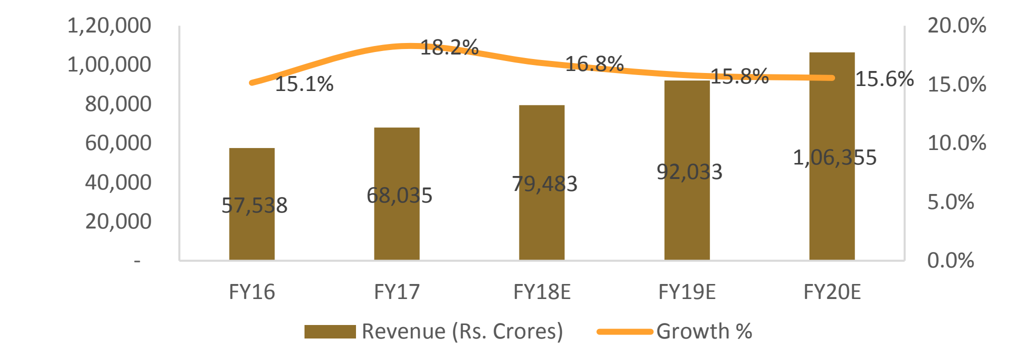
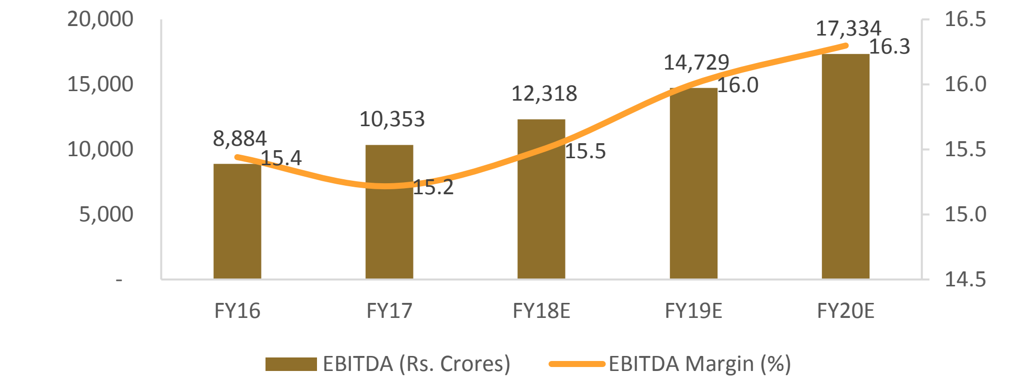
Valuation

Healthy launch pipeline, continued strong traction for recent launches and increasing share of premium products will aid Maruti in sustaining its market share. Hence, we expect sales and PAT CAGR of 15.9% & 17.3%, respectively over FY17-20E. We roll over our TP to FY20 and mantain BUY rating on the stock with a revised target price (TP) of Rs. 9,849 based on 25x FY20E EPS.

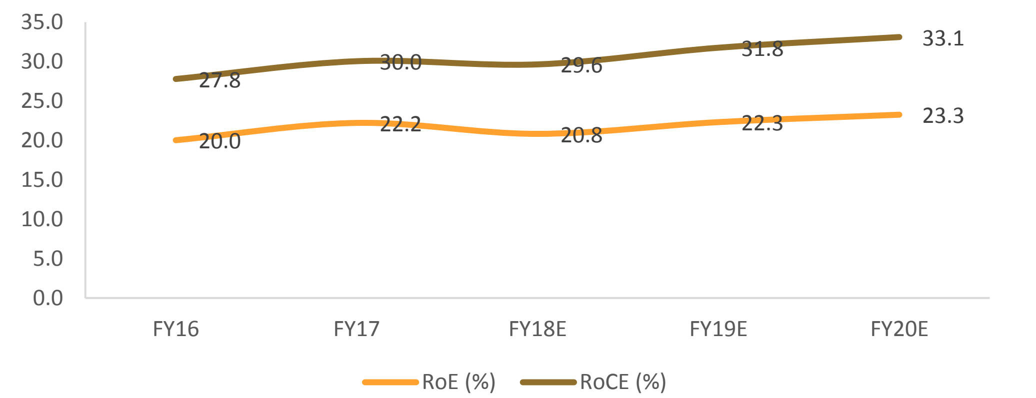
Revenue to grow at 16% CAGR over FY17-20E



Ebitda to grow at 19% CAGR over FY17-20E



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)	FY17	FY18E	FY19E	FY20E
Total operating Income	**68,035**	**79,483**	**92,033**	**1,06,355**
EBITDA	**10,353**	**12,318**	**14,729**	**17,334**
Depreciation	2,602	2,768	3,082	3,439
EBIT	**7,751**	**9,550**	**11,647**	**13,895**
Interest cost	89	100	100	100
Other Income	2,280	2,052	2,565	3,206
Profit before tax	**9,941**	**11,502**	**14,112**	**17,001**
Tax	2,604	3,451	4,233	5,100
Profit after tax	**7,338**	**8,051**	**9,878**	**11,901**
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
Adjusted PAT	**7,338**	**8,051**	**9,878**	**11,901**
E/o income / (Expense)	-	-	-	-
Reported PAT	**7,338**	**8,051**	**9,878**	**11,901**

Balance Sheet (Standalone)

Y/E (Rs.Cr)	FY17	FY18E	FY19E	FY20E
Paid up capital	151	151	151	151
Reserves and Surplus	36,020	40,990	47,243	54,794
Net worth	36,171	41,141	47,394	54,945
Minority Interest	-	-	-	-
Total Debt	484	484	484	484
Other non-current liabilities	1,127	1,127	1,127	1,127
Total Liabilities	**37,782**	**42,752**	**49,005**	**56,556**
Net fixed assets	13,289	14,523	15,441	16,002
Capital WIP	1,252	1,250	1,250	1,250
Goodwill	-	-	-	-
Investments	28228	33228	39928	48528
Net Current Assets	(6,152)	(7,413)	(8,778)	(10,388)
Deferred tax assets (Net)	(464)	(464)	(464)	(464)
Other non-current assets	1627	1627	1627	1627
Total Assets	**37,782**	**42,752**	**49,005**	**56,556**

Cash Flow Statement (Standalone)

Y/E (Rs.Cr)	FY17	FY18E	FY19E	FY20E
Pre tax profit	9,941	11,502	14,112	17,001
Depreciation	2,602	2,768	3,082	3,439
Chg in Working Capital	2,194	1,411	1,426	1,573
Others	(2,135)	(1,952)	(2,465)	(3,106)
Tax paid	(2,317)	(3,451)	(4,233)	(5,100)
Cash flow from operating activities	**10,285**	**10,279**	**11,922**	**13,807**
Capital expenditure	(3,389)	(4,000)	(4,000)	(4,000)
Chg in investments	(5,880)	(5,000)	(6,700)	(8,600)
Other investing cashflow	87	2,052	2,565	3,206
Cash flow from investing activities	**(9,182)**	**(6,948)**	**(8,135)**	**(9,394)**
Equity raised/(repaid)	-	0	-	-
Debt raised/(repaid)	253	-	-	-
Dividend paid	(1,057)	(2,568)	(3,021)	(3,625)
Other financing activities	(325)	(614)	(704)	(825)
Cash flow from financing activities	**(1,129)**	**(3,181)**	**(3,725)**	**(4,450)**
Net chg in cash	(26)	149	62	(37)

Key Ratios (Standalone)

Y/E	FY17	FY18E	FY19E	FY20E
Valuation(x)				
P/E	36.8	33.6	27.4	22.7
EV/EBITDA	26.1	22.0	18.4	15.6
EV/Net Sales	4.0	3.5	3.0	2.6
P/B	7.5	6.6	5.7	4.9
Per share data				
EPS	243.0	266.5	327.0	394.0
DPS	75.0	85.0	100.0	120.0
BVPS	1,197.7	1,361.9	1,568.9	1,818.9
Growth (%)				
Net Sales	18.2%	16.8%	15.8%	15.6%
EBITDA	16.5%	19.0%	19.6%	17.7%
Net profit	36.8%	9.7%	22.7%	20.5%
Operating Ratios				
EBITDA Margin (%)	15.2	15.5	16.0	16.3
EBIT Margin (%)	11.4	12.0	12.7	13.1
PAT Margin (%)	10.8	10.1	10.7	11.2
Return Ratios (%)				
RoE	22.2	20.8	22.3	23.3
RoCE	30.0	29.6	31.8	33.1
Turnover Ratios (x)				
Net Sales/GFA	3.9	3.8	3.7	3.6
Sales/Total Assets	1.4	1.4	1.4	1.5
Liquidity and Solvency Ratios (x)				
Interest Coverage	86.7	95.5	116.5	139.0
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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