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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.

☞ **Tepid festive season so far:** MSIL's Q2FY19 revenue growth at 3.1% YoY was lower than our estimates mainly due to tepid festive sales volume (down 1.5% YoY) offsetting the impact of higher operating income and favourable product mix. Volume numbers disappointed owing to higher fuel prices & interest rates and increase in third party insurance cost. Further, urban growth stood flat while rural grew by robust 13% YoY during the quarter. Despite higher discount at Rs. 18,750 (up 23% YoY) in Q2FY19, average net realization increased by 2% YoY mainly due to favourable mix (higher share of Brezza, Baleno etc.). Other operating income increased 267% YoY mainly due to one-off payment received from Suzuki on account of recovery for services rendered for FY18.

☞ **Margin pressure to ease in FY20:** EBITDA margin witnessed 160 bps YoY decline to 15.3% owing to higher discount, raw material cost inflation and adverse forex movement. However, adjusting for one-off operating income, EBITDA margin stood even lower at 14.5%. While forex, raw material and higher discounts together impacted margin by 350 bps YoY, company's cost reduction initiatives and higher other operating income limited the impact. However, the full impact of adverse FX movement will be felt only from the next quarter. Further, MSIL did not take any price increase to offset the cost pressures. Hence, we have reduced our EBITDA margin estimate for FY19E/FY20E to 14.6%/15.3%. Mirroring operating performance, PAT declined by 10% YoY in Q2FY19.

☞ **Demand to rebound going forward:** We believe the current slowdown is transient and the demand should recover in FY20E driven by robust rural demand. We factor volume growth CAGR of 9.2% over FY18-21E driven by robust pipeline, shift in consumer preference to petrol models, strong rural demand, expanding distribution network and ramp-up of Gujarat plant. Additionally, improving product mix (higher share of Brezza, Baleno etc) bodes well for both realization as well as margins.

Outlook and Valuation:

We have also reduced our target multiple to factor dismal festive sales and adverse forex movement. However, we remain positive on the stock given its strong product portfolio, well-entrenched distribution network and robust RoE/RoCE profile. We maintain BUY rating on the stock as recent stock price correction provides a good entry point for long-term investors. Our target price (TP) stands at Rs. 8,419 based on 22x FY21E EPS.

Market Data

Rating	BUY
CMP (Rs.)	7,418
Target (Rs.)	8,419
Potential Upside	14%
Duration	Long Term
Face Value (Rs.)	5
52 week H/L (Rs.)	10000/6502
Decline from 52WH (%)	26%
Rise from 52WL (%)	14%
Beta	1.7
Mkt. Cap (Rs.Cr)	224071

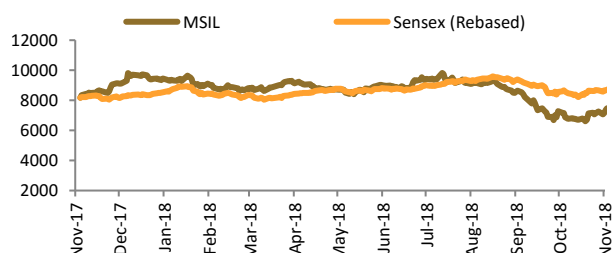
Fiscal Year Ended

Y/E	FY18	FY19E	FY20E	FY21E
Revenue (Rs.Cr)	79,763	89,483	1,00,651	1,12,052
Adj. profit (Rs.Cr)	7,722	8,495	10,344	11,561
Adj. EPS (Rs.)	255.7	281.2	342.4	382.7
P/E (x)	29.0	26.4	21.7	19.4
P/BV (x)	5.4	4.8	4.3	3.7
ROE (%)	19.8	19.2	20.9	20.6

Shareholding Pattern

	Mar-18	Jun-18	Sep-18
Promoters	56.2	56.2	56.2
FII's	25.2	23.7	22.8
MFs/Insti	11.4	12.7	13.4
Public	3.5	3.6	3.9
Others	3.7	3.8	3.7

One year price chart



Maruti Suzuki India Limited: 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 has a portfolio of 16 models, catering to a broad array of customer segments. 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 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	Q2 FY'19		H1 FY'19	
		Number	Growth	Number	Growth
Total Sales	Domestic	455,400	(0.4) %	919,240	11.3 %
	Exports	29,448	(15.2) %	56,087	(7.8) %
	Total Sales	484,848	(1.5) %	975,327	10.0 %
	Segments	Q2 FY'19		H1 FY'19	
		Number	Growth	Number	Growth
Domestic Sales	Mini	108,576	(6.6) %	213,615	(2.8) %
	Compact	219,748	4.7 %	452,415	23.9 %
	Mid Size	13,296	(27.9) %	24,015	(29.6) %
	UVs	64,115	(4.5) %	129,869	4.5 %
	Vans	44,099	1.7 %	88,887	12.3 %
	LCV	5,566	140.7 %	10,439	211.0 %
	Domestic	455,400	(0.4) %	919,240	11.3 %

Source: Company, In-house research

Quarterly Financials (Standalone)

(Rs cr)	Q2FY19	Q2FY18	YoY Growth %	Q1FY19	QoQ Growth %	6MFY19	6MFY18	YoY Growth %
Sales	22,433	21,768	3.1	22,459	(0.1)	44,893	39,314	14.2
EBITDA	3,431	3,678	(6.7)	3,351	2.4	6,782	6,009	12.9
Margin (%)	15.3	16.9	(160)	14.9	37	15.1	15.3	(18)
Depreciation	721	683	5.7	720	0.2	1441	1366.4	5.5
EBIT	2,710	2,995	(9.5)	2,631	3.0	5,341	4,642	15.1
Interest	26	15	71.3	21	24.2	46	46	0.2
Other Income	527	523	0.7	272	93.7	798.4	1,205.6	(33.8)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	3,211	3,503	(8.3)	2,882	11.4	6,093	5,802	5.0
Tax	971	1,019	(4.7)	907	7.0	1,878	1,761	6.6
Reported PAT	2,240	2,484	(9.8)	1,975	13.4	4,216	4,041	4.3
Adjustment	-	-	-	-	-	-	-	-
Adj PAT	2,240	2,484	(9.8)	1,975	13.4	4,216	4,041	4.3
No. of shares (cr)	30.2	30.2	-	30.2	-	30.2	30.2	-
EPS (Rs)	74.2	82.2	(9.8)	65.4	13.4	139.6	133.8	4.3

Tepid festive season so far

MSIL's Q2FY19 revenue growth at 3.1% YoY was lower than our estimates mainly due to tepid festive sales volume (down 1.5% YoY) offsetting the impact of higher operating income and favourable product mix. Volume numbers disappointed owing to higher fuel prices & interest rates and increase in third party insurance cost. Further, urban growth stood flat while rural grew by robust 13% YoY during the quarter. Despite higher discount at Rs. 18,750 (up 23% YoY) in Q2FY19, average net realization increased by 2% YoY mainly due to favourable mix (higher share of Brezza, Baleno etc.). Other operating income increased 267% YoY mainly due to one-off payment received from Suzuki on account of recovery for services rendered for FY18.

Margin pressure to ease in FY20

EBITDA margin witnessed 160 bps YoY decline to 15.3% owing to higher discount, raw material cost inflation and adverse forex movement. However, adjusting for one-off operating income, EBITDA margin stood even lower at 14.5%. While forex, raw material and higher discounts together impacted margin by 350 bps YoY, company's cost reduction initiatives and higher other operating income limited the impact. However, the full impact of adverse FX movement will be felt only from the next quarter. Further, MSIL did not take any price increase to offset the cost pressures. Hence, we have reduced our EBITDA margin estimate for FY19E/FY20E to 14.6%/15.3%. Mirroring operating performance, PAT declined by 10% YoY in Q2FY19.

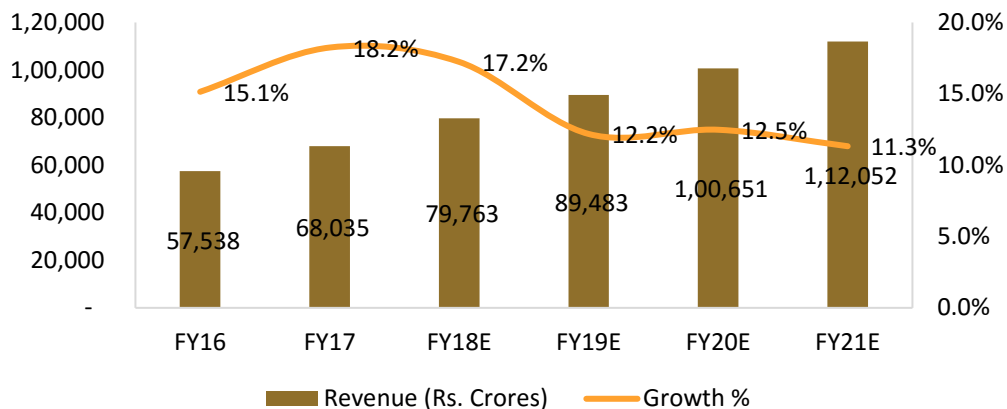
Demand to rebound going forward

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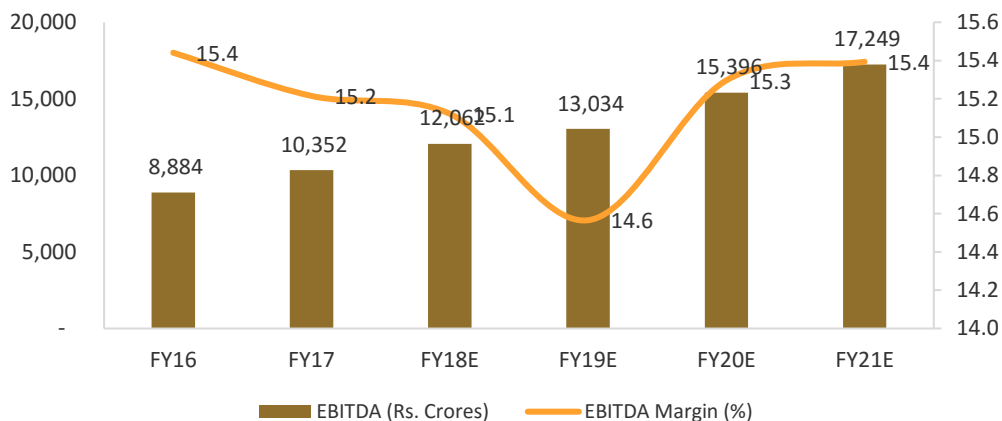
Outlook and Valuation

We have also reduced our target multiple to factor dismal festive sales and adverse forex movement. However, we remain positive on the stock given its strong product portfolio, well-entrenched distribution network and robust RoE/RoCE profile. We maintain 'BUY' rating on the stock as recent stock price correction provides a good entry point for long-term investors. Our target price (TP) stands at Rs. 8,419 based on 22x FY21E EPS.

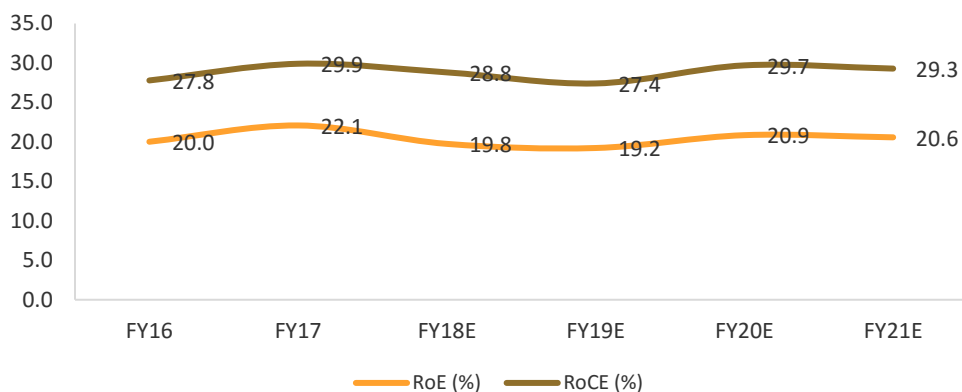
Revenue to grow at 12% CAGR over FY18-21E



EBITDA margin to improve to 15.4% in FY21E



Return ratios trend



Key Risks

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

Profit & Loss Account (Standalone)

Y/E (Rs. Cr)	FY18	FY19E	FY20E	FY21E
Total operating Income	79,763	89,483	1,00,651	1,12,052
Raw Material cost	54,975	61,978	69,381	77,239
Employee cost	2,834	3,034	3,225	3,590
Other operating expenses	9,892	11,437	12,649	13,973
EBITDA	12,062	13,034	15,396	17,249
Depreciation	2,758	2,943	3,396	3,936
EBIT	9,304	10,090	12,000	13,313
Interest cost	346	90	90	90
Other Income	2,046	2,050	2,762	3,175
Profit before tax	11,003	12,050	14,672	16,398
Tax	3,282	3,555	4,328	4,837
Profit after tax	7,722	8,495	10,344	11,561
Minority Interests	0	0	0	0
P/L from Associates	0	0	0	0
Adjusted PAT	7,722	8,495	10,344	11,561
E/o income / (Expense)	0	0	0	0
Reported PAT	7,722	8,495	10,344	11,561

Balance Sheet (Standalone)

Y/E (Rs. Cr)	FY18	FY19E	FY20E	FY21E
Paid up capital	151	151	151	151
Reserves and Surplus	41,606	46,460	52,433	59,624
Net worth	41,757	46,611	52,584	59,775
Minority interest	-	-	-	-
Total Debt	111	111	111	111
Other non-current liabilities	2,171	2,171	2,171	2,171
Total Liabilities	44,039	48,892	54,866	62,056
Total fixed assets	13,359	15,042	16,146	16,710
Capital WIP	2,126	2,000	2,000	2,000
Goodwill	-	-	-	-
Investments	35,290	39,390	44,990	52,490
Net Current assets	(8627)	(9430)	(10161)	(11035)
Other non-current assets	1,891	1,891	1,891	1,891
Total Assets	44,039	48,892	54,866	62,056

Cash Flow Statement (Standalone)

Y/E (Rs. Cr)	FY18	FY19E	FY20E	FY21E
Pre-tax profit	11,003	12,050	14,672	16,398
Depreciation	2,758	2,943	3,396	3,936
Chg in Working Capital	2,806	837	814	888
Others	(1,727)	(1,960)	(2,672)	(3,085)
Tax paid	(3,055)	(3,555)	(4,328)	(4,837)
Cash flow from operating activities	11,785	10,316	11,882	13,300
Capital expenditure	(3,892)	(4,500)	(4,500)	(4,500)
Chg in investments	(4,505)	(4,100)	(5,600)	(7,500)
Other investing cashflow	114	2,050	2,762	3,175
Cash flow from investing activities	(8,282)	(6,550)	(7,338)	(8,825)
Equity raised/(repaid)	-	0	-	-
Debt raised/(repaid)	(373)	-	-	-
Dividend paid	(2,266)	(3,021)	(3,625)	(3,625)
Other financing activities	(808)	(711)	(835)	(835)
Cash flow from financing activities	(3,446)	(3,732)	(4,460)	(4,460)
Net chg in cash	57	33	84	15

Key Ratios (Standalone)

Y/E	FY18	FY19E	FY20E	FY21E
Growth (%)				
Net Sales	16.7	11.0	12.7	11.3
EBITDA	16.5	8.1	18.1	12.0
Net profit	5.4	10.0	21.8	11.8
Margin (%)				
EBITDA	15.1	14.6	15.3	15.4
NPM	9.7	9.5	10.3	10.3
Return Ratios (%)				
RoE	19.8	19.2	20.9	20.6
RoCE	28.8	27.4	29.7	29.3
Per share data (Rs.)				
EPS	255.7	281.2	342.4	382.7
DPS	80.0	100.0	120.0	120.0
Valuation(x)				
P/E	29.0	26.4	21.7	19.4
EV/EBITDA	18.6	17.2	14.5	13.0
EV/Net Sales	2.9	2.6	2.3	2.1
P/B	5.4	4.8	4.3	3.7
Turnover Ratios (x)				
Net Sales/GFA	3.9	3.7	3.5	3.3
Sales/Total Assets	1.4	1.4	1.4	1.4

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

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

* Maruti Suzuki India Limited is a large-cap company.

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