

# MARUTI SUZUKI INDIA LTD.

Industry **Automobiles**  
Bloomberg **MSIL IN**  
BSE CODE **532500**

## Subdued demand scenario and weaker operating leverage to put pressure on margins

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>6516</b>
<b>Price Target</b>	<b>7022</b>
<b>Potential Upside</b>	<b>8%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

### Stock Info

52wk Range H/L	9,923/6,420
Mkt Capital (Rs Cr)	196846
Free float (%)	44%
Avg. Vol 1M (,000)	658
No. of Shares (Cr.)	30
Promoters Pledged %	0%

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### Q3FY19 Result Update

- ❑ MARUTI posted muted revenue growth of 2%YoY which was largely driven by 3%YoY realization growth whereas volume declined by 1%YoY.
- ❑ Gross margin declined by 330 bps QoQ to 28.6% due to higher commodity prices, adverse foreign exchange variation and higher discounts.
- ❑ EBITDA margin have also declined by 550 bps QoQ to 9.6% led by higher fixed cost on new plants coupled with higher employee cost and marketing expenses during the festive season.
- ❑ PAT for the quarter stood at Rs. 1489 crores. Despite higher other income, PAT margin declined by 240 bps QoQ to 7.6% due to higher depreciation expenses.
- ❑ The company has launched two new models Ertiga and Wagon R which has been received well in the market with 55000 and 14000 bookings respectively. The Ertiga model has a waiting period of 28 weeks.

### View and Valuation

Maruti has reported lowest EBITDA margin of 9.6% in last 23 quarters. Higher commodity cost, adverse currency movement, higher marketing spends on new models and weaker operating leverage led to 550bps QoQ decline in margins. The demand momentum also continues to be subdued due to increased cost of ownership and lack of new model launches. However, inventory level has come down to 15 days in January 2019 level from 40 days in December 2018 but growth prospect in near term seems sluggish and industry is expected to post 4.5% volume growth in FY19 as per the management. The discounts have also been rampant in the industry in last 2-3 quarters, which are leading to more pressure on margins. New plants coming in will further weigh on the profitability of the company. However, stabilizing commodity prices, price hikes and INR based royalty payment will mitigate some of the pressure going ahead. Factoring the sluggish demand scenario, INR depreciation and higher depreciation cost on new plants and higher fixed cost on new models, we tweak our FY19 and 20 EPS estimates by 11% and 6% respectively. We value Maruti at 24x FY20e EPS to arrive at target price of Rs.7022 and maintain NEUTRAL rating.

### Key Risks to our rating and target

- ❑ Further depreciation in INR
- ❑ Slow down in passenger vehicle industry

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	57589	68085	79809	85617	90156
EBITDA	8889	10358	12063	11438	13824
EBIT	6067	7754	9304	8478	10662
PAT	5497	7511	7881	7466	8838
EPS (Rs)	182	249	261	247	293
EPS growth (%)	44.4	36.6	4.9	(5.3)	18.4
ROE (%)	18.0	20.3	18.5	15.7	16.6
ROCE (%)	19.8	20.9	21.9	17.9	20.0
BV	1014	1227	1409	1571	1762
P/B (X)	3.7	4.9	6.3	4.1	3.7
P/E (x)	20.4	24.2	34.0	26.4	22.3

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## 3QFY19 Results

## Revenue in line; PAT below estimates

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Volumes	431	462	490	485	429	-1%	-12%	1569	1780	13.5%
Realization	447,290	458,355	457,907	462,685	458,850	3%	-1%	434,062	448,475	3.3%
Net Sales	19,283	21,166	22,459	22,433	19,668	2%	-12%	68,085	79,809	17.2%
Other Income	245	595	272	527	917	275%	74%	2,290	2,046	-10.6%
Total Income	19,528	21,761	22,731	22,960	20,586	5%	-10%	70,375	81,855	16.3%
COGS	13,332	14,376	15,502	15,285	14,044	5%	-8%	46,742	54,986	17.6%
Staff Cost	687	828	765	792	881	28%	11%	2,360	2,863	21.3%
Other Exp.	2,244	2,962	2,858	2,962	2,849	27%	-4%	8,728	9,996	14.5%
Expenditure	16,263	18,167	19,125	19,039	17,774	9%	-7%	57,727	67,746	17.4%
EBITDA	3,020	2,999	3,335	3,395	1,894	-37%	-44%	10,358	12,063	16.5%
Depreciation	689	703	720	721	768	11%	6%	2,604	2,760	6.0%
EBIT	2,331	2,297	2,615	2,673	1,127	-52%	-58%	7,754	9,304	20.0%
Interest	26	273	21	26	21	-22%	-20%	89	346	286.8%
PBT	2,550	2,618	2,866	3,174	2,023	-21%	-36%	9,954	11,004	10.5%
Excpt. Item	(18)	(16)	(17)	(37)	(37)	0%	0%	-	-	0.0%
Tax	768	752	907	971	571	-26%	-41%	2,616	3,286	25.6%
PAT	1,799	1,882	1,975	2,240	1,489	-17%	-34%	7,511	7,881	4.9%

**Subdued volume growth led to muted revenue growth**

Maruti posted muted revenue growth of 2% YoY during the quarter. Domestic volumes grew by 1% YoY to 405597 units while export volume declined sharply by 25% YoY to 23046 units. The compact segment grew by 4% YoY while the mid-size segment grew by 19% led by demand for new Ciaz. The company has launched new Ertiga in November, which has received 55000 bookings and enjoys a waiting period of 28 weeks. The LCV segment posted a growth of 129% YoY and the company further plans to focus on expansion of its LCV distribution network. Exports revenue for the quarter was Rs.1158 crores and it was majorly impacted by sales de-growth in Indonesia. Realization on the other hand grew by 3%YoY because of favorable product mix and price hikes despite higher discounts.

**Higher discounting levels coupled with higher marketing expenses and employee cost led to margin contraction**

Gross margin declined by 330 bps QoQ to 28.6% due to higher commodity prices, adverse foreign exchange fluctuation and higher discounts. EBITDA margin also declined by 550 bps QoQ to 9.6% in last 23 quarters led by higher fixed cost on new plants coupled with higher employee cost (wage settlement) and marketing expenses during the festive season.

**Higher depreciation expenses led to contraction in PAT margins**

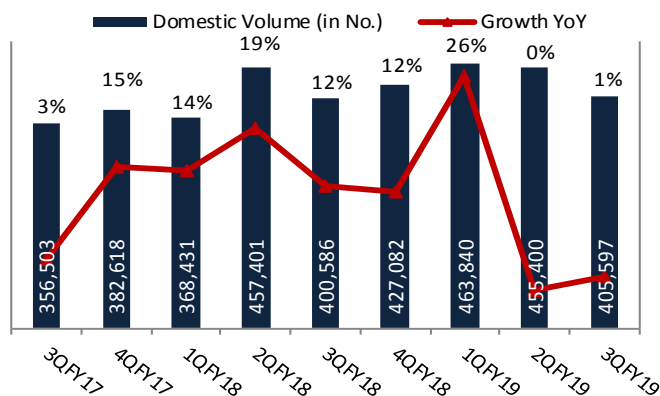
PAT for the quarter stood at Rs. 1489 crores. PAT margin also declined by 240 bps QoQ to 7.6% due to higher depreciation expenses due to installation of plant and machinery at Gujarat plant. However, other income was Rs.917 crores because of fair value gain on investments.

**Concall highlights**

- ❑ The management expects PV industry to post 4-4.5% volume growth in FY19.
- ❑ The management expects the company to continue to outperform the industry.
- ❑ Exports sales are expected to remain flat for next year.
- ❑ Urban growth was flat YoY and rural grew by 13%YoY led by network expansion and various promotional activities. The company has witnessed increasing premiumisation trend in rural areas due to increased digital penetration.
- ❑ The Company helped dealers retail about 90,000 vehicles in excess of wholesale to keep dealer inventories lean as the festive season sales growth was below expectation.
- ❑ The management has taken price hike of 70bps in January and reverse trend in commodity prices as well as lower discounts will have a positive impact in Q4FY19.
- ❑ Discounts per vehicle for the quarter stood at Rs.24300.
- ❑ Royalty rate for the quarter was 5.5% of sales.
- ❑ The company maintains the inventory level of 4-5 weeks. In January, the inventory level has come down to 15 days.
- ❑ Second line of Gujarat plant will become operational by March 2019. The management expects localization level to reach at desirable level in next one year.

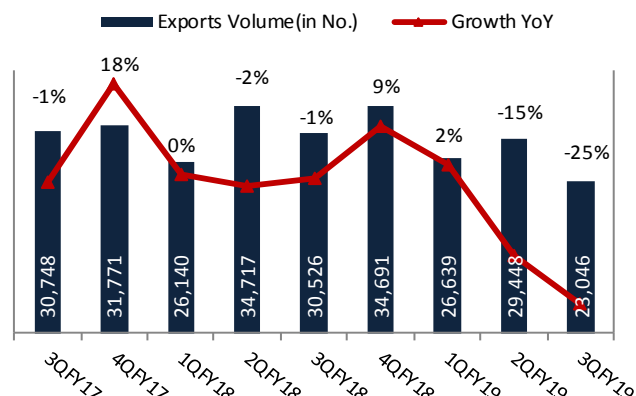
## Exhibit: Domestic Volume and Growth Trend

Domestic volume grew by 1% YoY led by sales of Ciaz, new Ertiga model and compact segment cars



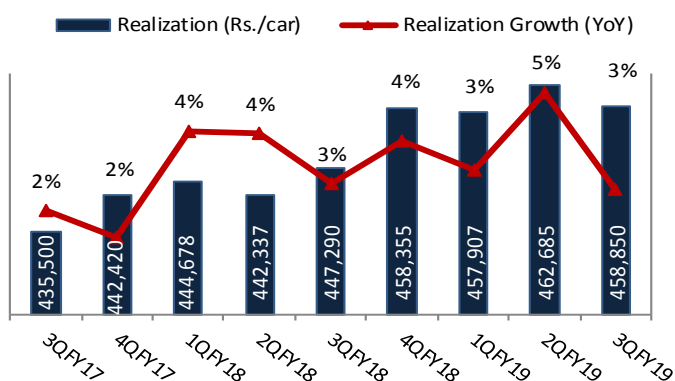
## Exhibit: Export Volume and Growth Trend

Exports volume declined due to sales degrowth in Indonesia market



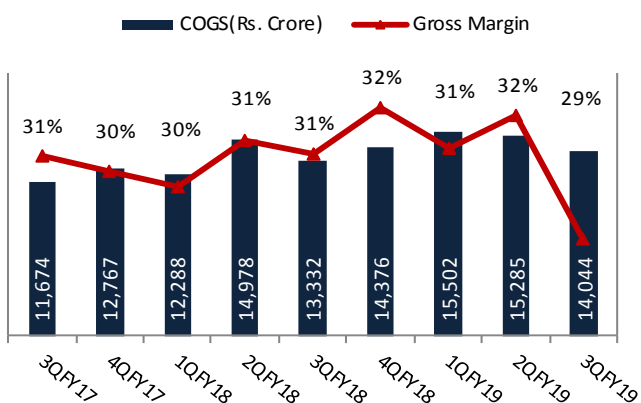
## Exhibit: Realization and Realisation Growth Trend

Favourable product mix led to realization growth of 3% YoY despite higher discounts



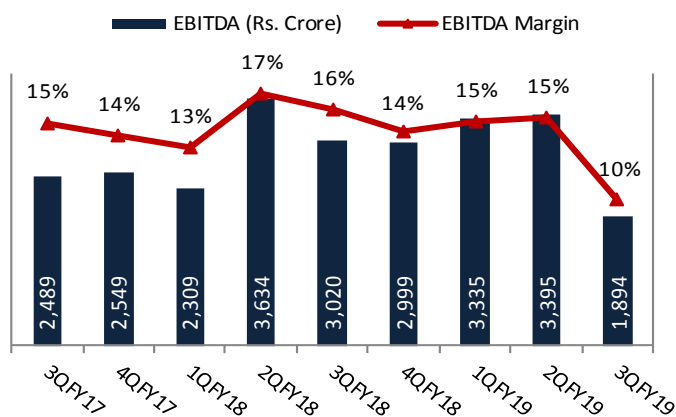
## Exhibit: COGS (Rs. Crore) and Gross Margin trend

Gross margins declined due to higher commodity prices, adverse foreign exchange fluctuation & higher discounts



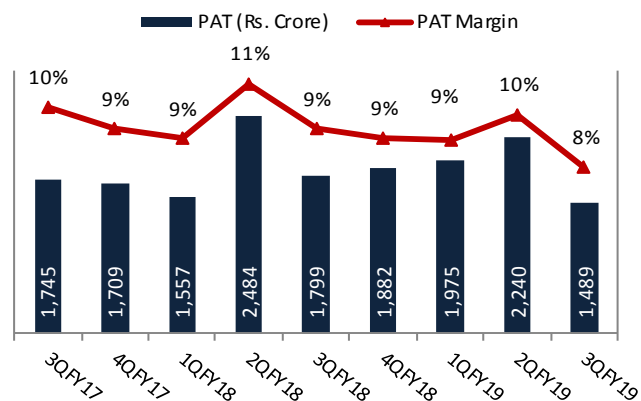
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

EBITDA margin declined due to higher FC on new plants coupled with higher employee cost & marketing expenses



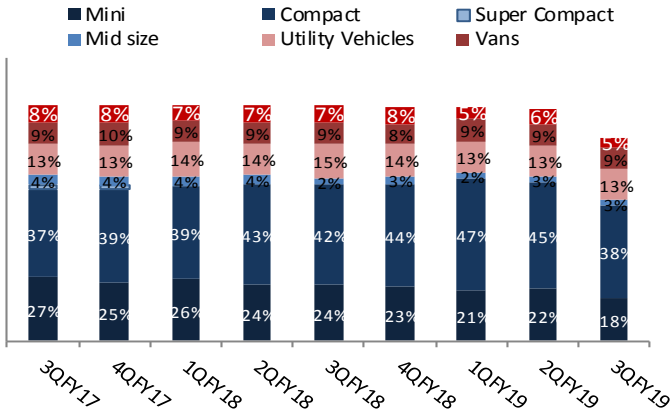
## Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT margin declined due to higher depreciation expenses



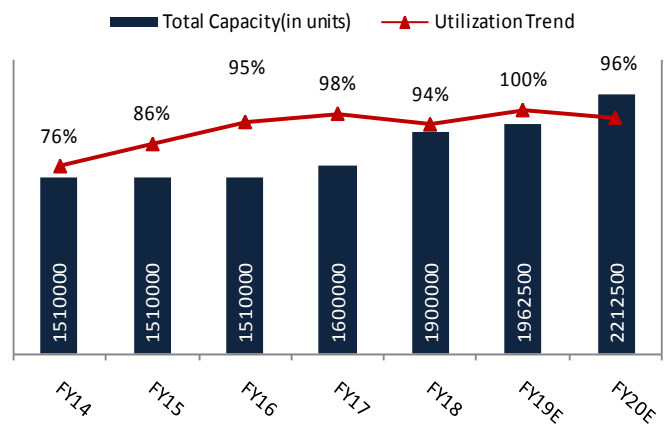
## Exhibit: Sales Mix

Shift has largely remained in favour of premium segment cars (compact and utility vehicles)



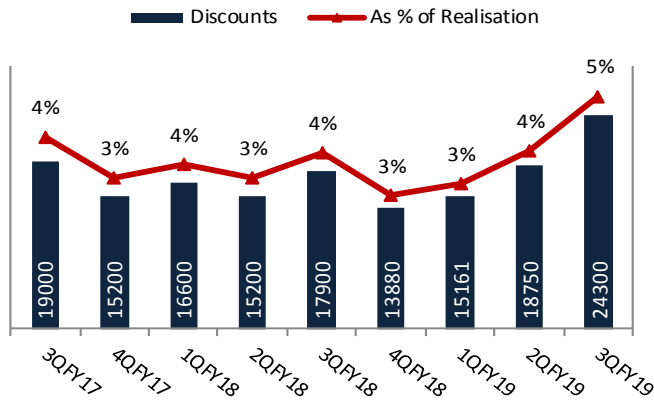
## Exhibit: Capacity and utilization trend

Increasing demand for premium segment cars have kept the capacity utilization at higher levels



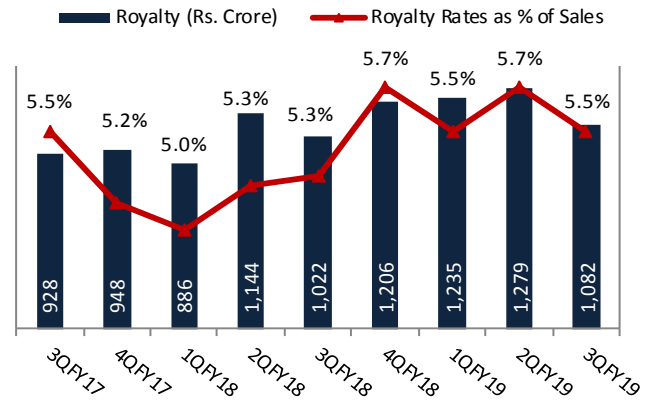
## Exhibit: Discounts and As % of Realisation Trend

Discounts have increased QoQ due to increased competition and slow down in demand



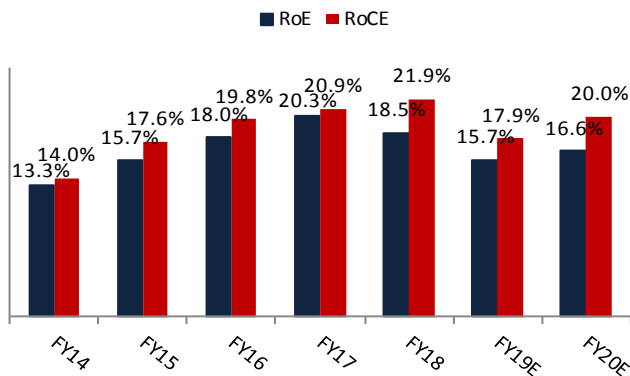
## Exhibit: Royalty (Rs. Crore) and As % of Net Sales

The management has signed a new royalty agreement with parent Suzuki Motors



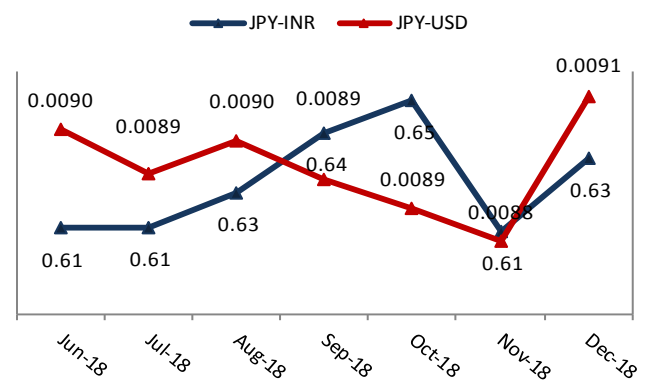
## Exhibit: RoE and RoCE Trend

Subdued demand environment will lead to contraction in return ratios



## Exhibit: YEN-INR movement

Approximately 8-10% imports are denominated in Yen so 1% movement in Yen leads to 1% impact in margins



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	151	151	151	151	151	151	151	151
Reserves	18,877	21,345	24,167	30,465	36,924	42,408	47,291	53,072
Networth	19,028	21,496	24,318	30,616	37,075	42,559	47,442	53,223
Debt	1,569	1,865	331	77	484	121	563	394
Other Non Cur Liab	902	1,045	886	1,051	1,633	2,214	2,214	2,214
Total Capital Employed	20,597	23,362	24,649	30,693	37,559	42,680	48,005	53,617
Net Fixed Assets (incl CWIP)	11,988	13,673	14,380	13,537	14,563	15,521	17,118	18,011
Non Cur Investments	2,171	1,521	9,992	19,535	26,972	34,906	38,352	44,206
Other Non Cur Asst	895	10	44	1,680	1,603	1,859	1,859	1,859
Non Curr Assets	16,342	16,858	25,782	34,774	43,162	52,318	57,361	64,109
Inventory	1,887	1,763	2,674	3,133	3,264	3,160	3,390	3,570
Debtors	1,536	1,489	1,144	1,323	1,203	1,465	1,642	1,729
Cash & Bank	815	649	43	51	24	74	60	60
Other Curr Assets	553	364	327	1,661	1,541	1,314	1,410	1,484
Curr Assets	11,175	14,554	8,696	7,951	8,798	7,930	9,048	8,653
Creditors	4,277	5,000	5,657	7,409	8,369	10,499	11,259	11,856
Provisons (both)	868	873	1,652	414	472	587	628	660
Other Curr Liab	1,088	1,321	1,917	1,165	1,828	2,090	2,140	2,254
Curr Liabilities	6,008	6,993	8,930	10,967	12,753	15,338	16,189	16,932
Net Curr Assets	5,168	7,561	(234)	(3,016)	(3,955)	(7,408)	(7,142)	(8,278)
Total Assets	27,517	31,411	34,479	42,726	51,961	60,248	66,409	72,762

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	44,304	44,451	50,801	57,589	68,085	79,809	85,617	90,156
Change (%)	23	0	14	13	18	17	7	5
Other Income	830	831	865	1,481	2,290	2,046	2,013	1,815
<b>EBITDA</b>	<b>4,328</b>	<b>5,204</b>	<b>6,844</b>	<b>8,889</b>	<b>10,358</b>	<b>12,063</b>	<b>11,438</b>	<b>13,824</b>
Change (%)	71	20	32	30	17	16	(5)	21
<b>Margin (%)</b>	<b>9.8</b>	<b>11.7</b>	<b>13.5</b>	<b>15.4</b>	<b>15.2</b>	<b>15.1</b>	<b>13.4</b>	<b>15.3</b>
Depr & Amor.	1,890	2,116	2,515	2,822	2,604	2,760	2,960	3,163
EBIT	2,438	3,088	4,329	6,067	7,754	9,304	8,478	10,662
Int. & other fin. Cost	198	185	218	82	89	346	84	59
<b>EBT</b>	<b>3,070</b>	<b>3,734</b>	<b>4,976</b>	<b>7,466</b>	<b>9,954</b>	<b>11,004</b>	<b>10,407</b>	<b>12,418</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	622	902	1,185	2,087	2,616	3,286	3,137	3,804
Minority Int & P/L share of Ass.	22	23	18	119	173	163	196	225
<b>Reported PAT</b>	<b>2,471</b>	<b>2,855</b>	<b>3,807</b>	<b>5,497</b>	<b>7,511</b>	<b>7,881</b>	<b>7,466</b>	<b>8,838</b>
<b>Adjusted PAT</b>	<b>2,471</b>	<b>2,855</b>	<b>3,807</b>	<b>5,497</b>	<b>7,511</b>	<b>7,881</b>	<b>7,466</b>	<b>8,838</b>
Change (%)	47	16	33	44	37	5	(5)	18
<b>Margin(%)</b>	<b>5.6</b>	<b>6.4</b>	<b>7.5</b>	<b>9.5</b>	<b>11.0</b>	<b>9.9</b>	<b>8.7</b>	<b>9.8</b>

## Financial Details

## Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	13%	13%	16%	18%	20%	19%	16%	17%
ROCE	12%	13%	18%	20%	21%	22%	18%	20%
Asset Turnover	1.61	1.42	1.47	1.35	1.31	1.32	1.29	1.24
Debtor Days	13	12	8	8	6	7	7	7
Inv Days	16	14	19	20	17	14	14	14
Payable Days	35	41	41	47	45	48	48	48
Int Coverage	0	0	0	0	0	0	0	0
P/E	16	24	29	20	24	34	26	22
Price / Book Value	2	3	5	4	5	6	4	4
EV/EBITDA	9	13	16	13	18	22	17	14
FCF per Share	835	(2)	1,958	1,252	1,109	3,486	2,211	3,287
Div Yield	0.6%	0.5%	0.7%	0.7%	0.6%	0.8%	1.1%	1.3%

## Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	3,070	3,734	4,976	7,585	10,127	11,167	10,407	12,418
(inc)/Dec in Working Capital	4,534	5,111	6,779	8,935	10,413	12,036	13,631	15,865
Non Cash Op Exp	1,890	2,116	2,515	2,822	2,604	2,760	2,960	3,163
Int Paid (+)	198	185	218	82	89	346	84	59
Tax Paid	(551)	(858)	(1,075)	(1,912)	(2,323)	(3,056)	(3,137)	(3,804)
others	(548)	(182)	(95)	1,021	1,868	2,928	529	626
CF from Op. Activities	4,059	4,995	6,539	8,483	10,282	11,788	10,843	12,461
(inc)/Dec in FA & CWIP	(3,529)	(3,536)	(3,263)	(2,456)	(3,236)	(3,885)	(4,556)	(4,056)
Free Cashflow	530	1,459	3,276	6,026	7,046	7,903	6,287	8,405
(Pur)/Sale of Inv	(848)	(2,650)	(2,084)	(12,044)	(17,694)	(47,069)	(629)	736
others	1,153	1,189	766	71	56	88	(3,446)	(5,854)
CF from Inv. Activities	(3,224)	(4,997)	(4,581)	(7,230)	(9,173)	(8,302)	(8,632)	(9,174)
inc/(dec) in NW								
inc/(dec) in Debt	(519)	379	(1,358)	(235)	253	(709)	442	(169)
Int. Paid	(208)	(170)	(222)	(92)	(110)	-	(84)	(59)
Div Paid (inc tax)	(252)	(283)	(424)	(909)	(1,273)	(2,727)	(2,583)	(3,058)
others								
CF from Fin. Activities	(979)	(74)	(2,004)	(1,237)	(1,129)	(3,436)	(2,226)	(3,286)
Inc(Dec) in Cash	(144)	(76)	(45)	16	(21)	50	(14)	1
Add: Opening Balance	203	165	89	28	43	23	74	60
Closing Balance	165	89	43	43	23	73	60	61

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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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