

MARUTI

NEUTRAL

28-Apr-17

INDUSTRY - AUTOMOBILE
BSE Code - 532500
NSE Code - MARUTI
NIFTY - 9342

Company Data

CMP	6371
Target Price	6450
Previous Target Price	
Upside	1%
52wk Range H/L	6444/3730
Mkt Capital (Rs Cr)	1,92,460
Av. Volume (,000)	39

RoE to decline by 120bps

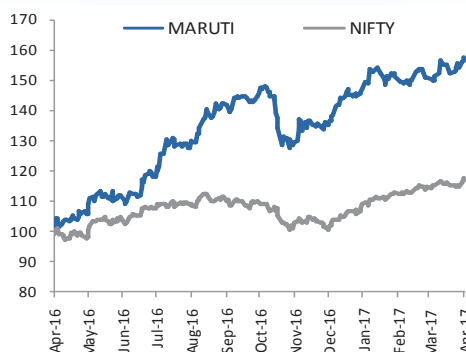


Share Holding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	56.2	56.2	56.2
Public	43.8	43.8	43.8
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	6.6	7.6	64.7
Rel.to Nifty	4.0	(0.5)	47.3



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Key Highlights of the Report:

- ✓ Higher fixed cost and depreciation on Gujarat plant will lead to further deterioration in the margins because of gradual ramp up in the volumes. EBITDA margin contracted by 300bps in last 3 quarters.
- ✓ Continued support from higher other income has helped company to post over 9% PAT margin.
- ✓ We expect 120 bps deterioration in RoE in FY19E from 20.2% in FY17.
- ✓ Going ahead lower PAT growth compared to previous period gives us very little cushion on the valuation front and at the present price level valuation is little stretched. Hence, we change our rating from BUY to Neutral with the target price of Rs. 6450 .

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	50,801	57,589	68,085	71,496	79,796
EBITDA	6,844	8,768	10,358	10,848	12,231
EBIT	4,329	5,947	7,754	7,878	9,621
PAT	3,807	5,377	7,511	7,449	9,188
EPS (Rs)	126	178	249	247	304
EPS growth (%)	33%	41%	40%	-1%	23%
ROE (%)	16%	19%	20%	18%	19%
ROCE (%)	18%	21%	21%	19%	20%
BV	805	919	1,227	1,384	1,598
P/B (X)	4.6	4.0	5.2	4.6	4.0
P/E (x)	29.3	20.9	25.6	25.8	20.9

RECENT DEVELOPMENT: Commencement of Gujarat Plant

- ✓ Gujarat plant has started production of first phase from February 2017 with total capacity of 250000 units per annum and initially, it will produce 20,000 units per month.
- ✓ Suzuki Motor Corporation had plans to spent around Rs.8500 crore on the Gujarat plant. The plant will become operational in three phases.
- ✓ Suzuki Motor Corporation will sell the production on cost to Maruti once its gets completed.
- ✓ Baleno will be first model to be produced and later on depending on the demand scenario other models can also be produced from same plant.
- ✓ The plant will take care of new models and exports. It will also reduce the logistics cost of Maruti.

Quarterly Performance

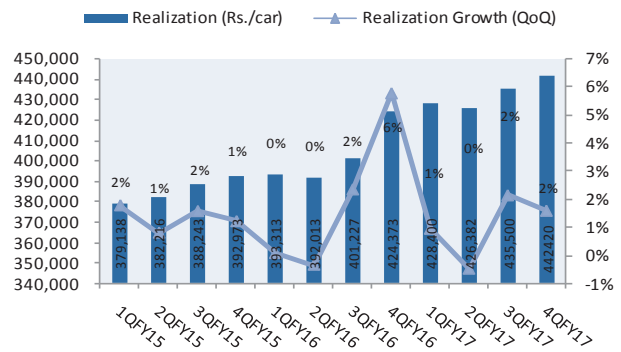
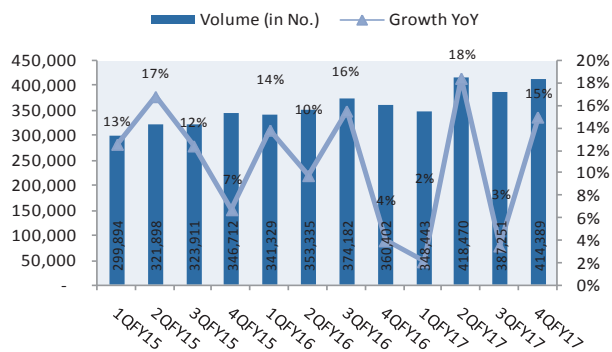
Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Total Volumes ('000)	360	348	418	387	414	15%	7%	1,429	1,568	10%
Realization(Rs./ car)	424372.8	428400.1	426381.8	435500.5	442420	4%	2%	402932.2	434062.5	8%
Net Sales	15,294	14,927	17,843	16,865	18,333	20%	9%	57,589	68,085	18%
Other Income	537	483	813	592	445	-17%	-25%	1,481	2,290	55%
COGS	10,095	10,125	12,074	11,674	12,767	26%	9%	38,706	46,742	21%
Employee Cost	603	579	519	617	616	2%	0%	2,000	2,360	18%
Other Expenses	2,258	2,007	2,212	2,085	2,402	6%	15%	8,054	8,728	8%
EBITDA	2,339	2,216	3,037	2,489	2,549	9%	2%	8,768	10,358	18%
Depreciation	761	639	630	635	701	-8%	10%	2,822	2,604	-8%
Interest	20	18	20	29	23	13%	-21%	8	9	9%
PBT	2,095	2,042	3,200	2,417	2,270	8%	-6%	7,419	10,035	35%
Tax	557	556	802	673	573	3%	-15%	2,087	2,616	25%
PAT	1,538	1,486	2,398	1,745	1,709	11%	-2%	5,451	7,591	39%

Higher other income supporting PAT

Results in-line, posted strong double digit revenue growth

Utility Vehicles volume grew by 72%

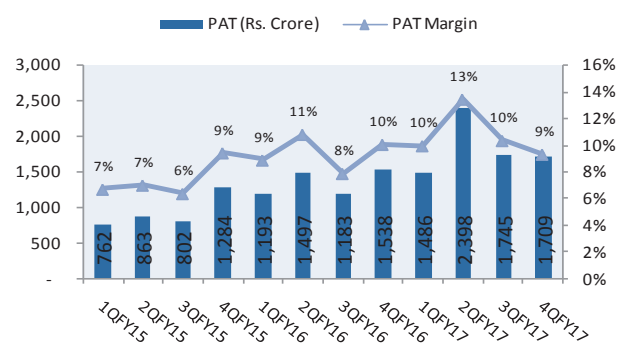
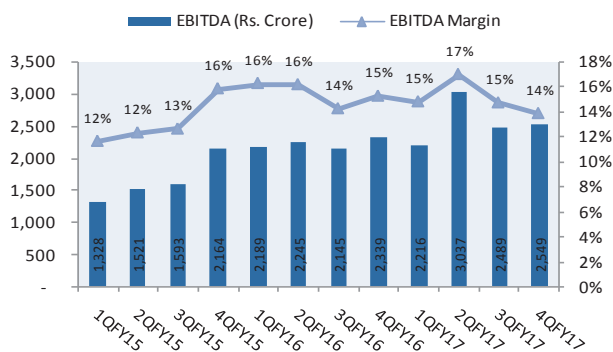
- ✓ Maruti reported results in line with our estimates. Net sales stood at Rs.18333 crore in 4QFY17 a growth of 20% over same quarter previous year. This was driven by 15% volume growth and 4.5% realization growth YoY.
- ✓ Domestic volumes grew by 15%YoY to 382618 units during 4QFY17. Compact segment saw a growth of 21% and utility vehicle segment grew by 72% YoY during the quarter. Fast growing UV and Compact segment demand is driven by Vitara Brezza and Baleno. These two models enjoys a waiting period of 5 and 7 months waiting period respectively.
- ✓ Exports volumes have seen growth of 18%YoY backed by exposure in the new geographies and increase in the Baleno volumes exported to Japan.
- ✓ Realization improved by 4.6%YoY to Rs.442000 per car on account of better product mix and price increases taken during the quarter.
- ✓ Royalty rate for the quarter stood at Rs.948 crore.



Higher Other income supported PAT

Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	34%	32%	32%	31%	30%	-0.04	0.00	33%	31%	-0.01
EBITDA Margin	15%	15%	17%	15%	14%	-0.01	-0.01	15%	15%	0.00
PAT Margin	10%	10%	13%	10%	9%	-0.01	-0.01	9%	11%	0.02

- ✓ Gross Margin contracted by 360bps YoY and 40bps QoQ due to increasing commodity prices and higher discounts on the mini segment cars during the quarter.
- ✓ EBITDA Margin also declined by 130bps YoY to 13.9% on account of higher marketing and promotional expenses. New launches and Ciaz movement to Nexa also led to increase in the other
- ✓ PAT grew by 15.8%YoY to Rs.1709 crore on account of higher other income. PAT margin declined by 40bps YoY and 100bps QoQ in 4QFY17.



Concall Highlights:

Confident of double digit volume growth in domestic market.

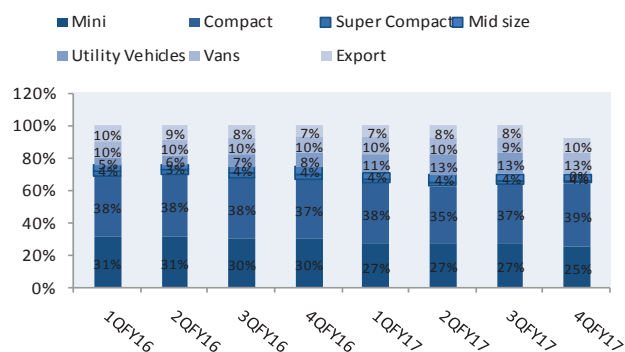
- ✓ Confident of double digit growth in next fiscal.
- ✓ The management do not see any kind of slow down in demand for next financial year.
- ✓ Exports Revenue in FY17 stood at Rs. 6000 crore.
- ✓ The company will maintain its market share going forward.
- ✓ Capex plan-Rs.4500 crore; large chunk of it would be for new models and rest is for R&D expenses and maintenance of old plants.
- ✓ Gujarat plant started production in 4QFY17 and initially, it will produce 20,000 units per month.
- ✓ Management expects that the industry is going to benefit hugely from GST.
- ✓ Maruti have been working with its suppliers and dealers to make sure that they are absolutely ready for GST.
- ✓ The company has asked its vendors to work with their tier II and tier III suppliers to make sure that they also become GST compliant by July 1.
- ✓ There is no improvement in the sales from government employees.
- ✓ Tax rate will be same as FY17
- ✓ Exports outlook remain subdued because of dollar availability issue in African countries and change in the duty structure in Sri-Lanka which was bigger market for Maruti.
- ✓ Fleet segment is 6% of overall sales for Maruti.

Export outlook subdued in FY18.

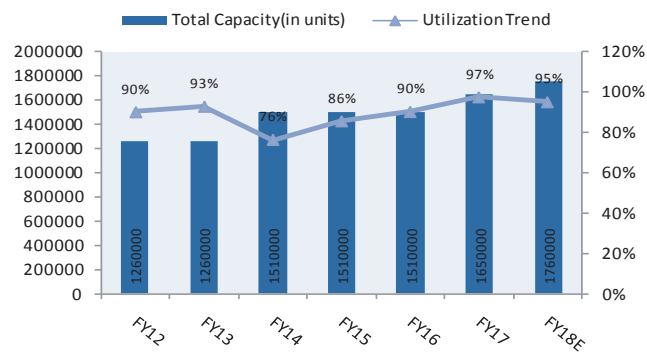
Investment Arguments:

- ✓ **Higher fixed cost and depreciation on Gujarat Plant-** Gujarat plant has already started production and it will take at least 6-9 months to fully ramp up. Till the time plant gets ramp up the company has to incur high fixed cost and depreciation on the plant. Thus the company can get the benefit of operating leverage from FY19 only.
- ✓ **Increasing Annual Budget on Old Plants-** Plants and machineries at Gurugram and Manesar plants more than 25 years old so the maintenance cost of these plants are high and the management has stated that the capex would be 800 crore for FY18 but it may go up going ahead.
- ✓ **International market to remain subdued-** Maruti is facing challenges in establishing its footprint in the exports. Africa market is facing dollar availability issue from last one and half years and Another big market for Maruti was Sri-Lanka where the government has changed the duty structure. Japan and Europe are the two markets where Maruti is exporting significant volumes.
- ✓ **New Launches by rivals in the premium segment-** Maruti has taken the benefit of selling premium segment cars as a market leader in the Indian market but going forward competitors like Tata Motors, Honda and Ford will share the pie with Maruti. These companies have been started spending huge amount on R&D to take advantage of future demand.
- ✓ **Reducing dependency on Yen to improve profitability-** Maruti is also aggressively working towards bringing down the import content in its cars from an average 16% at the end of FY16 to 10% as part of its vision 2.0 plan. Currently about 14 percent of imports are yen denominated. Management expects to bring it down to 5 percent and typically, 1% movement in yen leads to around 1% change in the operating profit of Maruti. The company also have rupee denominated Royalty contracts with the parent Suzuki Motors for new models.

Mix changes towards Utility Vehicles



Capacity and Utilization Trend



View & Valuation

Successful new launches in the recent past have kept Maruti on the driving seat with the market share of 47%. With the commissioning of Gujarat facility in the 4QFY17 waiting period for Baleno will reduce going forward. However, we expect that it will ramp up only by the second half of FY18 and till then the company has to incur high depreciation and fixed cost on the plant which may result in negative operating leverage for Maruti. We expect 120 bps deterioration in RoE from 20.2% in FY17 to 19% in FY19E. Going ahead lower PAT growth compared to previous years gives us a very little cushion on the valuation front and at the present price level valuation is little stretched. Hence, we change our rating from BUY to Neutral with the target price of Rs. 6450 .

Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	57,589	68,085	71,496	79,796
Change (%)	13%	18%	24%	17%
<i>Other Operating Income</i>				
EBITDA	8,768	10,358	10,848	12,231
Change (%)	28%	18%	24%	18%
Margin (%)	15%	15%	15%	15%
Dep & Amortization	2,822	2,604	2,970	2,610
EBIT	5,947	7,754	7,878	9,621
Interest & other finance cost	82	89	156	166
Other Income	1,481	2,290	2,293	2,863
EBT	7,345	9,954	10,016	12,318
Exceptional Item	-	-	-	-
Tax	2,087	2,616	2,739	3,303
Minority Int & P/L share of Ass.	119	173	173	173
Reported PAT	5,377	7,511	7,449	9,188
Adjusted PAT	5,377	7,511	7,449	9,188
Change (%)	41%	40%	39%	22%
Margin(%)	9%	11%	10%	12%

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	19%	20%	18%	19%
ROCE	21%	21%	19%	20%
Asset Turnover	1.4	1.3	1.3	1.3
Debtor Days	8.79	6.45	6.45	6.45
Inventory Days	20.3	17.5	17.5	17.5
Payable Days	45	45	45	45
Interest Coverage	0.0	0.0	0.0	0.0
P/E	21	26	26	21
Price / Book Value	4.0	5.2	4.6	4.0
EV/EBITDA	13	19	18	16
FCF per Share	1,265	2,517	2,937	2,896
Dividend Yield	0.9%	1.2%	1.2%	1.2%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Volume ('000)	1,429	1,569	1,724	1,886
Volume Growth	11%	10%	10%	9%
Realization(Rs./vehicle)	4,02,932	4,34,062	4,14,710	4,23,094
Realization Growth	3%	8%	-4%	2%
Capex(Rs crore)	3,249	3,500	2,000	2,000

Balance Sheet				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	151	151	151	151
Reserves	27,598	36,924	41,647	48,108
Networth	27,749	37,075	41,798	48,259
Debt	237.8	483.6	484.0	484.0
Other Non Current Liab	900	1,633	1,085	1,085
Total Capital Employed	27,987	37,559	42,282	48,743
Net Fixed Assets (incl CWIP)	13,989	14,563	13,370	12,442
Non Current Investments	17,512	26,972	28,950	35,398
Other Non Current Assets	9	1,603	1,862	1,862
Non Current Assets	32,866	43,162	44,220	49,740
Inventory	3,200	3,264	3,427	3,825
Debtors	1,387	1,203	1,263	1,410
Cash & Bank	77	24	79	83
Other Current Assets	270	1,541	1,583	1,583
Current Assets	7,404	8,798	10,343	12,582
Creditors	7,127	8,369	8,788	9,809
Provisions	2,137	472	491	546
Other Current Liabilities	2,408	1,828	1,919	2,142
Curr Liabilities	11,369	12,753	11,180	12,478
Net Current Assets	(3,965)	(3,955)	(838)	104
Total Assets	40,270	51,961	54,563	62,322

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17E	FY18E	FY19E
PBT	6,630	9,954	10,016	12,318
(inc)/Dec in Working Capital	9,089	14,348	11,264	15,267
Non Cash Op Exp	2,867	2,604	2,970	2,610
Interest Paid (+)	94	89	156	166
Tax Paid	(1,948)	(2,616)	(2,739)	(3,303)
others	941	358	(108)	926
CF from Op. Activities	8,584	11,917	8,243	12,717
(inc)/Dec in FA & CWIP	(2,424)	(3,178)	(1,777)	(1,682)
Free Cashflow	6,160	8,739	6,467	11,035
(Pur)/Sale of Investment	(4,785)	(1,304)	(1,551)	(1,691)
others	(110)	(8,095)	(1,978)	(6,448)
CF from Inv. Activities	(7,319)	(9,399)	(5,306)	(9,821)
inc/(dec) in NW				
inc/(dec) in Debt	(226)	246	0	-
Interest Paid	(104)	(89)	(156)	(166)
Dividend Paid (inc tax)	(909)	(2,727)	(2,727)	(2,727)
others				
CF from Fin. Activities	(1,239)	(2,570)	(2,882)	(2,892)
Inc/Dec) in Cash	26	(53)	55	4
Add: Opening Balance	43	77	24	79
Closing Balance	69	24	79	83