

MARUTI SUZUKI INDIA LIMITED

3-Jan-17

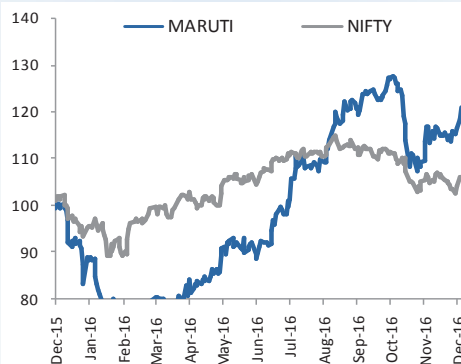
Result Update	
CMP	5466
Target Price	6100
Previous Target Price	
Upside	12%
Change from Previous	-

Market Data	
BSE Code	532500
NSE Symbol	MARUTI
52wk Range H/L	5972/3202
Mkt Capital (Rs Cr)	165120
Av. Volume	52910
Nifty	8,180

Stock Performance			
	1Month	1Year	YTD
Absolute	7.8	-3.8	18.4
Rel.to Nifty	6.7	2.6	15.5

Share Holding Pattern-%			
	2QFY17	1QFY17	4QFY16
Promoter	56.2	56.2	56.2
Public	43.8	43.8	43.8
Others	--	--	--
Total	100.0	100.0	100.0

Company Vs NIFTY



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Maruti reported 3% growth in sales volume in the 3QFY17, despite the current demonetisation issue. Domestic volumes grew by 4% on account of higher sales of premium segment cars (Baleno and Brezza). Exports have shown 1% of de-growth YoY primarily led by currency issue in various countries and higher import duty imposition by Sri-Lankan government on 800-1000 cc cars. Realization improved on account of better product mix and price increase during the quarter. Management has stated that the first phase of the Gujarat plant will begin its commercial production in 4QFY17 and this plant will take care of new models and the exports. There will be some cost pressure going ahead due to higher depreciation and fixed cost on new plant. The management is also exploring new geographies to expand its reach in Latin American and European market.

2QFY17 Result Highlights

Maruti reported Rs.17843 crore of net sales in 2QFY17 a growth of 29% over previous year. This was driven by 18% volume growth and 9% realization growth YoY.

EBITDA margin improved to 17% by 150bps YoY higher steel prices and employee cost.

Royalty stood at Rs.1088 crore (6.1% of sales) during the quarter due to appreciation in Yen.

Maruti reported a PAT of Rs.2398 crore a growth of 60.2% YoY on account of higher other income in the quarter.

Outlook

We expect current demonetization issue may not be impacting much in the long run to the passenger vehicle segment because more than 75% vehicles are financed. But this issue may be hampering sales in near future due to cash crunch in the economy. We assume volumes in the second half may be down by 10% in comparison to the first half 2017. Higher sales of premium segment cars will further increase the realization per car, which will in turn maintain the margins going ahead despite the rising commodity prices. Hence we have positive view on this stock and we recommend "BUY" with a target price of Rs.6100.

	Rs. In crore				
Financials	2QFY17	1QFY17	2QFY16	QoQ	YoY
Sales	17843	14927	13851	20%	29%
EBITDA	3037	2216	2245	37%	35%
Net Profit	2398	1486	1497	61%	60%
EBIDTA%	17.0%	14.8%	16.2%		
PAT %	13.4%	10.0%	10.8%		

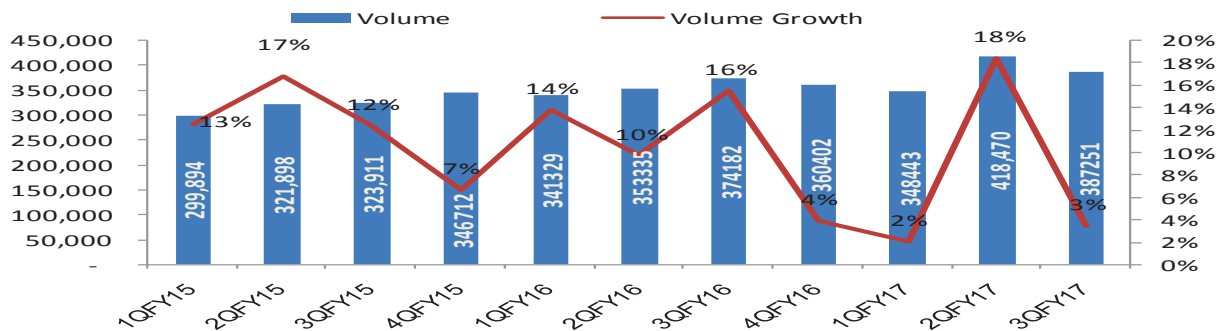
Investment Arguments

- ◆ In the recent past a series of new product launches have been successful for the company. It was a strategic decision to enter in those segments where it has very few or no products. The same way the company is planning to launch 15 new products till 2020.
- ◆ Maruti is onset to unleash the potential in the international business by targeting European and Latin American markets. Recently launched and upcoming new products are technologically sound and competent to the export markets.
- ◆ Gujarat plant will begin its commercial production in 4QFY17 and this plant will take care of new models and the exports. It will take 6 months to ramp up the production and there will be some cost pressure going ahead due to higher depreciation and fixed cost on new plant.
- ◆ 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. Typically, 1% movement in yen leads to around 1% change in the operating profit of Maruti.

Management Highlights

- ◆ Lower double digit growth guidance for FY17 due to current demonetisation issue. 25% decline in retail sales in rural areas and 25% enquiries have been impacted in urban areas.
- ◆ Maximum impact on taxi part, specially Ola and Uber. They contributes to 30% of the volumes.
- ◆ Export may remain flat in FY17
- ◆ Management expects 50000 Baleno's to be exported to Japan. Apart from Japan, the vehicle is being exported to Europe, Australia, New Zealand and Latin America.
- ◆ Maruti's newly launched light commercial vehicle, Super Carry, is also exported to South Africa and Tanzania and will be exported to SAARC countries in the future.
- ◆ Gujarat plant is likely to be commissioned in Q4FY17. Management expects it will take 6 months to ramp up.
- ◆ Steel prices have started going up and its impact may be seen in second half of the year.
- ◆ Margins can come under pressure once the Gujarat plant becomes operational due to higher fixed cost and depreciation.
- ◆ Capex- Rs.4500 crore,(Rs.2000 crore for maintenance and R&D, Rs.1000 crore on marketing expenses and Rs.1500 crore on product development.
- ◆ The waiting period for Brezza is 27 weeks and for Baleno 33 weeks. Maruti has increased the production for Baleno by 25% to meet customer requirements.
- ◆ The company has 15 new models in the pipeline, which will come out by 2020.

Volumes Trend



Financials Snap Shot

	INCOME STATEMENT					RATIOS			
	FY14	FY15	FY16	FY17E		FY14	FY15	FY16	FY17E
Revenue (Net of Excise D	44,451	50,801	58,612	65,460	EPS	94	126	156	174
Other Income	831	865	472	134	Book Value	712	805	919	1,047
Total Revenue	45,281	51,666	59,084	65,594	DPS	14.0	29.3	41.0	45.9
COGS	31,853	35,615	39,318	44,348	Payout (incl. Div. Tax.)	15%	23%	26%	26%
GPM	28%	30%	33%	32%	Valuation(x)				
Other Expenses	5,970	6,741	8,115	8,709	P/E	24.0	29.3	23.9	28.1
EBITDA	5,204	6,844	9,119	10,068	Price / Book Value	3.2	4.6	4.0	4.7
EBITDA Margin (%)	12%	13%	16%	15%	Dividend Yield (%)	0.62%	0.79%	1.10%	0.94%
Depreciation	2,116	2,515	2,867	2,425	Profitability Ratios				
EBIT	3,088	4,329	6,252	7,643	RoE	13%	16%	17%	17%
Interest	185	218	94	67	RoCE	14%	18%	22%	24%
PBT	3,734	4,976	6,630	7,710	Turnover Ratios				
Tax	902	1,185	1,999	2,513	Asset Turnover (x)	1.4	1.5	1.5	1.4
Tax Rate (%)	24%	24%	30%	33%	Debtors (No. of Days)	12.2	8.2	8.6	8.6
Reported PAT	2,855	3,807	4,699	5,266	Inventory (No. of Days)	20.2	27.4	29.7	32.0
Dividend Paid	424	884	1,237	1,386	Creditors (No. of Days)	41.1	40.6	44.4	44.4
No. of Shares	30	30	30	30	Net Debt/Equity (x)	0.0	0.0	0.0	0.0

	BALANCE SHEET			
	FY14	FY15	FY16	FY17E
Share Capital	151	151	151	151
Reserves	21,345	24,167	27,598	31,477
Net Worth	21,496	24,318	27,749	31,628
Long term Debt	627	278	147	147
Short term Debt	1,238	53	91	101
Deferred Tax	596	484	475	475
Total Capital Employed	22,124	24,597	27,896	31,775
Net Fixed Assets	13,673	14,380	13,989	15,178
Capital WIP	2,640	1,890	1,013	-
Debtors	1,489	1,144	1,387	1,549
Cash & Bank Balances	649	43	77	551
Trade payables	5,000	5,657	7,127	7,960
Total Provisions	873	1,652	2,137	2,391
Net Current Assets	7,561	(234)	(3,965)	(3,850)
Total Assets	31,411	34,479	40,270	45,529

	CASH FLOW STATEMENT			
	FY14	FY15	FY16	FY17E
OP/(Loss) before Tax	3,734	4,976	6,630	7,710
Depreciation	2,116	2,515	2,867	2,425
Direct Taxes Paid	(858)	(1,075)	(1,948)	(2,513)
OP before WC changes	5,111	6,779	9,089	10,271
CF from Op. Activity	4,995	6,539	8,584	8,246
	(13,100)	(17,354)	(12,189)	(87)
Capex	(3,545)	(3,279)	(2,443)	(3,614)
CF from Inv. Activity	(4,997)	(4,581)	(7,319)	(6,328)
Repayment of Long Term	(22)	(211)	(292)	-
Interest Paid	(170)	(222)	(104)	(67)
Divd Paid (incl Tax)	(283)	(424)	(909)	(1,386)
CF from Fin. Activity	(74)	(2,004)	(1,239)	(1,443)
Inc/(Dec) in Cash	(76)	(45)	26	474
Add: Opening Balance	165	89	43	77
Closing Balance	89	43	69	551