

# Maruti Suzuki (MSIL)

India Research

**RESULT REVIEW**

 Bloomberg: MSIL IN  
 Reuters: MRTI.BO

**BUY**
**At the Fag-End of Weak Business Cycle -Maintain BUY**

During Q4FY19, MSIL sales grew by 1.4% YoY to Rs214.6bn (below our estimates Rs235 bn). Its EBITDA margins declined by 370bps to 10.5% (below our estimates of 12.5%). PAT declined by 4.6% YoY to Rs 17.9bn (below our estimates of Rs19.5bn). To factor in present business outlook we reduce our volume and PAT estimates by 0.6%/0.7% and 13.6%/8.3% for FY20E and FY21E respectively. We retain our BUY rating on the stock with a revised price target of Rs 7977 (PER of 25x FY21E) as we remain positive on the MSIL's growth prospects given the low 4W penetration in India and MSIL's competitive advantages like strong brand and distribution network.

**Q4FY19 Result Review:** During Q4FY19, MSIL's net sales grew by 1.4% YoY to Rs214.6bn (Our Estimates Rs235bn) driven by 0.7% volume decline (4.58lacs) and 2.1% increase in average realizations (Rs4.6lacs per unit). Its EBITDA margins declined by 370bps to 10.5% (below our estimates of 12.5%). PAT of the company declined by 4.6% YoY to Rs 17.9bn (below our estimates of Rs19.5bn). Higher other income (up 45.8% YoY) and lower tax rate supported the overall earnings of the Company.

**Volume growth during FY19 supported by Rural Market and UV segment:** During FY19, MSIL reported volume growth of 4.7% vs. Domestic PV industry growth of 2.7%. The Company sold 18,62,450 vehicles in FY19 compared to 17,79,574 in FY18. This growth was primarily supported by utility segment and rural markets which grew by 10%+ in H2FY19. Going forward Management expects volume growth to remain tepid during Q1FY20 while Chairman of the Company has guided 4%-8% volume growth during FY20. This is based on its strong product portfolio and likely uptake in the economic growth beginning from Q2FY20 in the country.

**EBITDA Margin contracted by 370bps:** The Company reported EBITDA margins of 10.5%, 370bps decline YoY. This decline is attributed to higher commodity prices, adverse foreign exchange movement and higher sales promotion expense. On the back of recent price hike and lowering discounts, Management anticipates gross and EBITDA margin recovery during FY20. We understand, despite scale benefits and richer product mix, overall margin recovery will take at least 2-3 quarters as volume growth remains soft.

**Key Financials:**

Y/E (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	6,80,348	7,97,627	8,60,203	9,34,226	10,48,315
EBIDTA	1,03,517	1,20,615	1,09,993	1,16,697	1,41,031
EBIDTA (%)	15.2%	15.1%	12.8%	12.5%	13.5%
Adjusted Profit	73,502	77,218	75,006	78,764	96,359
EPS (Rs)	243	256	248	261	319
YoY (%)	37.0	5.1	(2.9)	5.0	22.3
ROCE (%)	23.0%	20.3%	17.0%	16.2%	17.8%
ROE (%)	23.3%	19.8%	17.1%	16.2%	17.8%
P/E (x)	28.4	27.0	27.8	26.5	21.6

Source: Karvy Stock Broking

**Recommendation**

CMP:	Rs6905
Target Price:	Rs7977
Previous Target Price	Rs8701
Downside (%)	15.5%

**Stock Information**

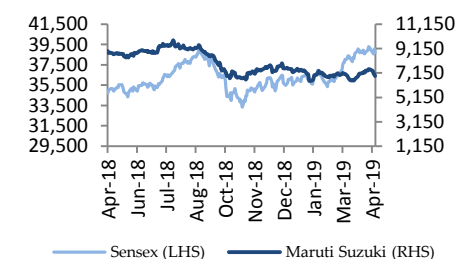
Market Cap. (Rsbn / US\$ mn)	2,086/29,684
52-week High/Low (Rs)	9,929/6,318
3m ADV (Rsmn /US\$ mn)	6,534 /93
Beta	1.1
Sensex/ Nifty	38,731/11,642
Share outstanding (mn)	302

**Stock Performance (%)**

	1M	3M	12M	YTD
Absolute	5.9	6.0	(22.7)	(7.5)
Rel. to Sensex	3.3	(1.4)	(31.2)	(13.9)

**Performance**

MRTI.BO



Source: Bloomberg

**Earnings Revision**

(%)	FY20E	FY21E
Revenue	↓ 2.7	↓ 2.8
EBITDA	↓ 15.2	↓ 9.8
PAT	↓ 13.7	↓ 8.3

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**Maruti Suzuki**

**Growth Outlook:** As per the management 4W demand in India continues to remain soft. Growth in urban areas has been negative while rural demand has grown 10%+ YoY. For MSIL, rural segment contributes ~40% of total volumes. We believe, for MSIL, double digit volume growth is likely to be challenging for the next 2-3 quarters on account of subdued consumer sentiments and slow economic growth in the country. However growth is likely to rebound post Q1FY20 as uncertainties related to Monsoon and General Election is likely to be over. We expect MSIL to report 6%/9% volume growth during FY20E/21E.

**Earning Revision:** For MSIL, we reduce our volume, sales and PAT estimates by 0.6%/0.7%, 2.7%/2.8% and 13.7%/8.3% for FY20E and FY21E respectively. We expect MSIL to report 7.5% volume CAGR, 10.4% sales CAGR and 13.3% PAT CAGR over FY19-21E. The Company is expected to report EPS of Rs261 and Rs319 in FY20E and FY21E respectively.

**Valuations and recommendations:** While near term growth outlook for MSIL remains challenging, we remain positive on the MSIL's medium term growth prospects given the low 4W penetration in India and MSIL's competitive advantages like strong brand and distribution network. With 2500+ distribution centers and seven blockbuster models (Dzire, Swift, Alto, Baleno, Ertiga, WagonR and Vitara Brezza) MSIL currently dominates the Indian car market. We do not see any major threat to its product portfolio and its product pricing. MSIL is expected to possess ~Rs476bn cash on its balance sheet by FY21E. At CMP of Rs 6905, MSIL stock is quoting at PE of 21.6x FY21 earnings. We reiterate our BUY rating on the stock with a revised price target of Rs 7977 (PER of 25x FY21E).

**Maruti Suzuki**
**Exhibit 1: Mar'19 Quarterly Performance**

<b>Rs Mn</b>	<b>Q4FY19</b>	<b>Q4FY18</b>	<b>Y-o-Y %</b>	<b>Q3FY19</b>	<b>Q-o-Q %</b>
Net Sales	2,07,375	2,05,943	0.7%	1,89,264	9.6%
Other operating income	7,219	5,713	26.4%	7,419	-2.7%
Net Sales	2,14,594	2,11,656	1.4%	1,96,683	9.1%
Raw Material	1,54,236	1,43,763	7.3%	1,40,437	9.8%
Staff Cost	8,169	8,282	-1.4%	8,811	-7.3%
Other expenditure	29,555	29,461	0.3%	28,124	5.1%
Total Expenditure	1,91,960	1,81,506	5.8%	1,77,372	8.2%
EBITDA	22,634	30,150	-24.9%	19,311	17.2%
Depreciation	8,102	7,025	15.3%	7,677	5.5%
EBIT	14,532	23,125	-37.2%	11,634	24.9%
Interest	88	2,731	-96.8%	206	-57.3%
Other Income	8,677	5,950	45.8%	9,173	-5.4%
PBT	23,121	26,344	-12.2%	20,601	12.2%
Tax	5,165	7,523	-31.3%	5,708	-9.5%
PAT	17,956	18,821	-4.6%	14,893	20.6%
EPS	59	62	-4.7%	49	20.6%
<b>Margins</b>	<b>Q4FY19</b>	<b>Q4FY18</b>	<b>Y-o-Y(bps)</b>	<b>Q3FY19</b>	<b>Q-o-Q (bps)</b>
Gross margins	28.1%	32.1%	(395)	28.6%	(47)
EBITDA	10.5%	14.2%	(370)	9.8%	73
PAT	8.4%	8.9%	(52)	7.6%	80
Tax Rate	22.3%	28.6%	(622)	27.7%	(537)
<b>Geographical Sales</b>	<b>Q4FY19</b>	<b>Q4FY18</b>	<b>Y-o-Y %</b>	<b>Q3FY19</b>	<b>Q-o-Q %</b>
Domestic Sales	4,28,863	4,27,082	0.4%	4,05,597	5.7%
Export Sales	29,616	34,691	-14.6%	23,046	28.5%
Total	4,58,479	4,61,773	-0.7%	4,28,643	7.0%
Average Realisation - Net (Rs / unit)	4,68,056	4,58,355	2.1%	4,58,850	2.0%
Gross Profit / Car (Rs)	1,31,648	1,47,027	-10.5%	1,31,219	0.3%
EBITDA / Car (Rs)	49,368	65,292	-24.4%	45,051	9.6%
PAT/ Car (Rs)	39,164	40,758	-3.9%	34,745	12.7%

Source: Karvy Stock Broking

**Maruti Suzuki**
**Exhibit 2: Revision in Estimates**

<b>Old</b>	<b>FY20E</b>	<b>FY21E</b>
Volumes (Nos)	19,85,713	21,65,526
Net sales (Rs Mn)	9,60,559	10,78,655
EBITDA (Rs Mn)	1,37,659	1,56,380
Margins (%)	14.3%	14.5%
PAT (Rs Mn)	91,238	1,05,133
EPS (Rs)	302	348
<b>New</b>	<b>FY20E</b>	<b>FY21E</b>
Volumes (Nos)	19,73,661	21,50,617
Net sales (Rs Mn)	9,34,226	10,48,315
EBITDA (Rs Mn)	1,16,697	1,41,031
Margins (%)	12.5%	13.5%
PAT (Rs Mn)	78,764	96,359
EPS (Rs)	261	319
<b>Change</b>	<b>FY20E</b>	<b>FY21E</b>
Volumes (Nos)	-0.6%	-0.7%
Net sales	-2.7%	-2.8%
EBITDA	-15.2%	-9.8%
Margins (bps)	(184.0)	(104.5)
PAT	-13.7%	-8.3%
EPS (Rs)	-13.6%	-8.3%

**Maruti Suzuki****Key Con-Call Takeaways:**

- Overall EBITDA Margins were impacted on account of adverse foreign exchange movement and impact of rise in commodity prices.
- Volumes were impacted on account of slowdown in Urban centers
- Average discounts for Q4FY19 stood at Rs 15,125 and Royalty rate is at 5%.
- Diesel ratio for Q4FY19 stood at 23% and 25% for FY19.
- Urban vehicle market reported 2% de-growth whereas rural market is growing at 10+% during H2FY19.
- Channel Inventory for Q4FY19 is at 25-28 days.
- Exports for Q4FY19 stood at Rs 14.74bn and Rs 53.35bn for FY19.
- LCV Division which witnessed strong growth continues to witness robust demand and has currently 310 total touch points in 230 cities.
- The company plans to incur capex of Rs 45bn in FY20.
- Currently the Gujarat plant witnessed production of ~96k cars for Q4FY19 and MSIL has also inaugurated a new plant in Jan 2019.
- MSIL has already moved its 40% portfolio to the new emission norms and the remaining will be moved in phases.

**Maruti Suzuki**

## Financials

### Exhibit 3: Profit & Loss Statement

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	6,80,348	7,97,627	8,60,203	9,34,226	10,48,315
YoY (%)	17.8	17.2	7.8	8.6	12.2
Raw Material	4,67,316	5,49,750	6,02,542	6,60,932	7,33,260
Employee Cost	23,310	28,338	32,549	35,322	38,988
Admin Expenses	86,205	98,924	1,15,119	1,21,275	1,35,037
Total Expenses	5,76,831	6,77,012	7,50,210	8,17,529	9,07,285
<b>EBIDTA</b>	<b>1,03,517</b>	<b>1,20,615</b>	<b>1,09,993</b>	<b>1,16,697</b>	<b>1,41,031</b>
EBIDTA Margin (%)	15.2%	15.1%	12.8%	12.5%	13.5%
Depreciation	26,021	27,579	30,189	33,810	37,551
EBIT	77,496	93,036	79,804	82,888	1,03,480
Interest	894	3,457	758	796	796
Other income	23,001	20,455	25,610	27,829	31,792
PBT	99,603	1,10,034	1,04,656	1,09,921	1,34,476
(-) Tax	26,101	32,816	29,650	31,157	38,117
Tax/ PBT	26.2	29.8	28.3	28.3	28.3
<b>PAT</b>	<b>73,502</b>	<b>77,218</b>	<b>75,006</b>	<b>78,764</b>	<b>96,359</b>
YoY (%)	37.0	5.1	(2.9)	5.0	22.3

Source: Karvy Stock Broking

### Exhibit 4: Balance sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity capital	1,510	1,510	1,510	1,510	1,510
Reserves	3,60,201	4,16,063	4,59,905	5,08,999	5,69,060
Net worth	3,61,711	4,17,573	4,61,415	5,10,509	5,70,570
Total Loans	4,836	1,108	1,496	1,496	1,496
Deferred Tax Liability	4,640	5,589	2,455	2,455	2,455
<b>Total Liabilities</b>	<b>3,71,187</b>	<b>4,24,270</b>	<b>4,65,366</b>	<b>5,14,460</b>	<b>5,74,521</b>
Gross Block	3,25,327	3,62,340	4,04,281	4,54,281	4,99,281
Less: Acc. Dep.	1,92,435	2,20,014	2,50,203	2,84,013	3,21,563
Net block	1,32,892	1,42,326	1,54,078	1,70,268	1,77,718
Work in progress	12,523	12,523	16,001	16,001	16,001
Investments	2,82,284	3,52,902	3,65,150	3,65,150	3,65,150
Inventories	32,622	31,608	33,257	36,480	40,472
Debtors	11,992	14,618	23,104	20,484	22,986
Cash	131	711	1,789	50,890	1,13,292
Loans and advances	36,580	33,193	35,597	38,660	43,381
Current assets	81,325	80,130	93,747	1,46,514	2,20,131
Current liabilities	1,29,582	1,57,746	1,56,971	1,76,263	1,96,388
Provisions	8,255	5,865	6,639	7,210	8,091
Net current assets	-56,512	-83,481	-69,863	-36,959	15,652
<b>Total Assets</b>	<b>3,71,187</b>	<b>4,24,270</b>	<b>4,65,366</b>	<b>5,14,460</b>	<b>5,74,521</b>

Source: Karvy Stock Broking

**Maruti Suzuki**
**Exhibit 5: Cash Flow Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net profit	73,502	77,218	75,006	78,764	96,359
Depreciation	26,021	27,579	30,189	33,810	37,551
Deferred tax	2,745	-679	327	0	0
Change in W/C	17,682	27,549	-12,540	16,197	9,790
Operating cash flow	1,19,950	1,31,667	92,982	1,28,771	1,43,700
Capex	-36,535	-35,385	-48,880	-50,000	-45,000
Investments	-1,04,427	-70,618	-12,248	0	0
Investing cash flow	-1,40,962	-1,06,003	-61,128	-50,000	-45,000
<b>Free Cash Flow</b>	<b>83,415</b>	<b>96,282</b>	<b>44,102</b>	<b>78,771</b>	<b>98,700</b>
Dividend	-27,267	-29,088	-29,049	-29,670	-36,298
Equity	45,405	7,732	-2,115	0	0
Debt	2,614	-3,728	388	0	0
Financing cash flow	20,752	-25,084	-30,776	-29,670	-36,298
Net change in cash	-260	580	1,078	49,101	62,402
Opening cash	391	131	711	1,789	50,889
Closing cash	131	711	1,789	50,889	1,13,291

Source: Karvy Stock Broking

**Exhibit 6: Ratios**

Valuation Ratios	FY17	FY18	FY19E	FY20E	FY21E
EPS (Rs/share)	243	256	248	261	319
Book value (Rs/share)	1,197	1,382	1,528	1,690	1,889
Cash /Share (Rs)	919	1,167	1,210	1,373	1,579
P/E (x)	28.4	27.0	27.8	26.5	21.6
EV/EBDITA (x)	17.5	14.4	15.6	14.3	11.4
P/B (x)	5.8	5.0	4.5	4.1	3.7
EV/Sales (x)	2.7	2.2	2.0	1.8	1.5
Performance Ratios	FY17	FY18	FY19E	FY20E	FY21E
ROCE (%)	23.0%	20.3%	17.0%	16.2%	17.8%
ROE (%)	23.3%	19.8%	17.1%	16.2%	17.8%
Dividend/Share (Rs)	75	80	80	82	100
Dividend Yield (%)	1.1%	1.2%	1.2%	1.2%	1.4%
Gross Asset Turnover (x)	2.1	2.0	1.9	1.9	1.9
Avg Net WC Days	2.2	2.3	2.2	2.2	2.2
Net W/C (% of sales)	-8.3%	-10.6%	-8.3%	-9.4%	-9.3%

Source : Karvy Stock Broking

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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