SINCE 1986
DALAL STREET INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION

VALUE PICK

CHASING VALUE, NOT PRICES

Company Name	:	**MARUTI SUZUKI INDIA**
BSE Code	:	**532500**
Time Duration	:	**1 year**
CMP	:	**₹7,086.80 (as on 14 Mar., 2019)**
Target Price	:	**₹8575**

Our Value Pick for the month of March is Maruti Suzuki India, an undisputable market leader in India's passenger car market. As of FY18, Maruti offers 16 models through six segments – mini, compact, mid-size, utility vehicles (UVs), vans and light commercial vehicles (LCVs). As for the volume mix for FY18, mini, compact and UV accounted for nearly 26 per cent, 45 per cent and 15 per cent, respectively. On the other hand, mid-size, vans and LCVs contributed about 4 per cent, 9 per cent and 1 per cent, respectively. The company also exports its products to more than 100 countries (5 per cent of its volume is from exports), with top five countries for exports being Indonesia, Chile, South Africa, Bolivia and Nepal. The company has two manufacturing facilities with an installed capacity of 1.56 million vehicles per year. Considering the strong demand outlook, the company has set up a plant in Gujarat with a capacity of 7.5 lakh, which would be started steadily by FY21. This is in line with the company's aim to achieve 2 million vehicle sales by 2020.

Consistently on top gear

Maruti is a homegrown brand which understands the needs the of the Indian customers. This is easily evident from the market share gain of Maruti in the last six years from 39 per cent to the present 52 per cent. The company has strong product portfolio which satisfies the needs of the general public in India. Not just the right products, the company knows well how to sell the right products to the right people, for which it has built strong sales network with 3,426 sales outlets (including NEXA) across the country. The factors like robust launches across passenger vehicles and utilities vehicles with efficient mileage, that too at competitive prices, has helped Maruti to maintain its lead in the race. Maruti has a good sense of Indian customers' taste which has given it the edge over other players. We believe Maruti's strategy of keeping itself technologically updated and having a strong product portfolio would help it to maintain its top position in years to come, despite the competitive market scenario.

Long term road seems to be soft drive

Looking at present macro situation, the passenger vehicle industry has more headroom to grow further. Considering low penetration level of cars in India, improving road infrastructure, rapid urbanisation, young Indian population, increasing disposable incomes and easy and swift access to credit would lead to growth of auto industry in the country. In addition to these factors, government's various policies such as Automotive Mission Plan: 2016-26 and FAME 2020 gives further boost to the auto industry. The revenue contribution from the urban markets in the recent quarter was 61 per cent, while the rest was from the rural markets. The company registered flat growth in the urban market, however the rural segment recorded a healthy growth of 13 per cent.

Tapering off short term hiccup

Due to the recent slowdown in the auto industry, the company has posted poor set of numbers. However, the recovery in domestic demand, Maruti's efforts to localise its products, coupled with well-timed expansion in Gujarat would help the company to accelerate its growth further. The company's management believes that it can grow more than the industry in this year. Further, it expects the commodity prices to decline, though at a slower pace. Besides, it aims to bring down its discounts in the coming quarter. In terms of royalty payment, all new models as and when launched, will move from the old yen-based basis to a new rupee formula, which gradually would reduce Maruti's exposure to forex. Notably. The company has taken price hikes across the models to pass on the burden of high input costs. Besides, the implementation of BS-VI would lead to a rise in the cost of diesel cars, which in turn would result in demand boost for petrol/CNG vehicles and ultimately benefit Maruti.

New launches to maintain Maruti's top position

In 2018, the company launched new models of Swift and Ciaz, so to push the sales of old variants, the discounts were on a higher side. As the contribution from new products starts increasing from 2019, we believe the discounts should moderate from the present levels. Remarkably, the better product mix would help in improving realisations in the coming quarters. During the third

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quarter of FY19, the company launched the new Ertiga (waiting period of 28 weeks) which received overwhelming response of more than 55,000 bookings. Also, the new Wagon-R launched in the last quarter of FY19 received satisfactory response, with more than 14,000 bookings.

Robust distribution network

At the start of 2019, Maruti's sales network stood strong at 3,426 sales outlets, including NEXA. This distribution network is far higher than the second largest player Hyundai, which has around 490 dealers as on FY18. The company is already a market leader in the industry, and to sustain this position, Maruti aims to improve the customer experience and satisfaction through the revamp of the existing sales channel ARENA in 2018, in line with its premium sales channel NEXA. This unmatched distribution network will help Maruti to enter new markets without much difficulties.

Financial

Amid slowdown in the Indian auto industry, Maruti Suzuki too posted weak set of numbers. The company's revenue for the third quarter of FY19 was flat at Rs. 18926.4 crore as against Rs. 18940 crore in Q3FY18. The export revenue for the quarter was Rs. 1160 crore. EBITDA during the quarter dipped nearly 36.4 per cent YoY to Rs. 1931.1 crore with corresponding margin contraction of 593 bps. EBITDA margin in the quarter was at 9.82 per cent. This deterioration in margins was led by rising commodity inflation, adverse forex movement, higher discounts and inventory adjustments. Net profit for the quarter declined nearly 17.2 per cent to Rs. 1489.3 crore from the corresponding quarter of the previous year. The net profit margin for the quarter stood at 7.6 per cent.

Valuations

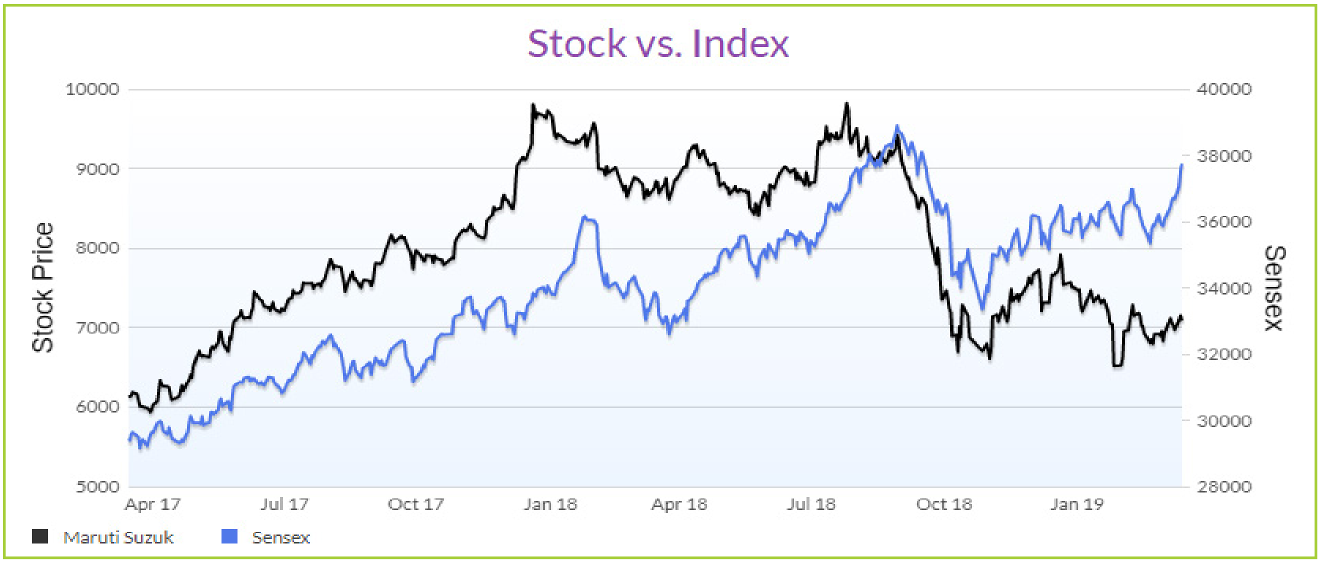
In terms of valuations, the stock of Maruti at present is available at 28.5x P/E multiple on TTM earnings, which is ~5.4 per cent lower than its five-year median P/E. We believe that the short term headwinds is getting factored in the price. In terms of return ratios, Maruti Suzuki commands higher RoCE and ROE of 28.81 per cent and 19.8 per cent, respectively. Additionally, Maruti's unparalleled leadership position in the passenger car segment, strong distribution network, along with robust product portfolio is compelling enough to embark on an investment journey with Maruti Suzuki. We believe the company has potential to deliver around 21 per cent return to reach Rs. 8575.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	79762.70	68034.80	57538.10	49970.60	43791.80
Total Income	81907.30	70438.50	59059.30	50871.30	44557.80
Total Expenditure	67800.30	57786.70	48713.90	43326.80	38639.00
PBIDT	14107.00	12651.80	10345.40	7544.50	5918.80
PAT	7721.80	7350.20	5364.30	3711.20	2783.00
Dividend %	1600.00	1500.00	700.00	500.00	240.00
Adj. EPS(Rs)	255.69	243.38	177.63	122.89	92.15

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201812	201809	Q on Q Var%	201712	Y on Y Var%
Net Sales	18926.40	21551.90	-12.18	18940.00	-0.07
Total Expenditure	17737.20	19001.90	-6.66	16245.40	9.18
PBIDT (Excl OI)	1931.10	3431.30	-43.72	3037.80	-36.43
PAT	1489.30	2240.40	-33.53	1799.00	-17.22
PBIDTM% (Excl OI)	9.82	15.30	-35.82	15.75	-37.65
PBIDTM%	14.48	17.64	-17.91	17.02	-14.92
PATM%	7.57	9.99	-24.22	9.33	-18.86
Adj. EPS(Rs)	49.31	74.19	-33.54	59.57	-17.22


Stock vs. Index
Stock Price
Sensex
10000
9000
8000
7000
6000
5000
40000
38000
36000
34000
32000
30000
28000
Apr 17
Jul 17
Oct 17
Jan 18
Apr 18
Jul 18
Oct 18
Jan 19
Maruti Suzuk
Sensex