

Maruti Suzuki India

Refer to important disclosures at the end of this report

Demand outlook remains intact; Maintain Buy

- EBITDA margin improved 40bps qoq to 15.3%, above our estimate of 13.8% and consensus estimate of 14.4%, on cost-reduction initiatives and the receipt of engineering fees for R&D efforts from Suzuki as part of the new Royalty Agreement. Margins are expected to remain under pressure in the near term due to higher discounts, commodity inflation, and adverse currency movements.
 - Management reiterated its double-digit volume growth expectation for FY19. We expect a revenue CAGR of 15% over FY18-20, driven by new product launches, strong rural demand, and a recovery in volumes from Kerala.
 - We reduce our FY19/20 EPS estimates by 13%/15% to Rs288.1/Rs352.6, driven by our lower margin assumptions. Despite this revision, we expect a 17% earnings CAGR over FY18-20.
 - We maintain our Buy rating, with a revised target price of Rs8,100 (Rs10,400 earlier), based on 23x FY20E EPS (25x earlier). We reduce the valuation multiple, factoring in lower earnings growth. Average ROE/ROCE are expected at 20%/29% over FY19-20, with a FCF generation of Rs57bn/year.
- Conference call highlights:** 1) Volume target remains double-digit growth in the domestic market for FY19, driven by strong rural demand and new products. 2) Rural growth remains strong at 13%, while urban growth was flat. 3) Production ramp-up remains on track, with the addition of 250,000 units capacity in early 2019 and 250,000 units capacity in mid-2020. 4) New model launches remain a focus area, with at least one new model per year. Further, the focus is on new powertrains across Electric, Hybrid, and CNG. 5) Margin was supported by cost-reduction initiatives and the receipt of engineering fees for R&D efforts from Suzuki as part of the new Royalty Agreement; going forward, this fee will be booked on a quarterly basis. 6) Focus remains on the reduction of JPY exposure, led by a reduction in JPY-denominated royalties (40% of the royalty cost is now paid in INR terms relating to models like Brezza, Swift, Dzire and Ignis), and the localization of imports (Direct and Indirect imports at 5% and 13% of net sales).
- Maintain Buy:** We reduce our FY19/20E EPS by 13%/15% to Rs288.1/Rs352.6, driven by our lower margin assumption. Despite this revision, we expect a 17% earnings CAGR over FY18-20. We maintain our Buy rating with a revised target price of Rs8,100 (Rs10,400 earlier), based on 23x FY20E EPS (25x earlier). We reduce the valuation multiple after factoring in lower earnings growth. Average ROE/ROCE are expected at 20%/29% over FY19-20, with a FCF generation of Rs57bn/year.

Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	575,381	680,348	797,627	903,832	1,059,409
EBITDA	88,844	103,517	120,615	133,853	161,116
EBITDA Margin (%)	15.4	15.2	15.1	14.8	15.2
APAT	53,643	73,502	77,218	86,991	106,499
EPS (Rs)	177.6	243.4	255.7	288.1	352.6
EPS (% chg)	44.5	37.0	5.1	12.7	22.4
ROE (%)	20.0	22.2	19.8	19.6	21.2
P/E (x)	37.9	27.6	26.3	23.3	19.1
EV/EBITDA (x)	20.7	17.0	14.0	12.3	9.9
P/BV (x)	6.8	5.6	4.9	4.3	3.8

Source: Company, Emkay Research

CMP Rs 6,725 as of (October 25, 2018)	Target Price Rs 8,100 (▼) 12 months
Rating BUY (■)	Upside 20.5 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	(13)/(15)
Target Price change (%)	(22.1)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	FY19E	FY20E
Emkay	288.1	352.6
Consensus	309.6	367.8
Mean Consensus TP (12M)	Rs 9,437	

Stock Details

Bloomberg Code	MSIL IN
Face Value (Rs)	5
Shares outstanding (mn)	302
52 Week H/L	10,000 / 6,623
M Cap (Rs bn/USD bn)	2,031 / 27.74
Daily Avg Volume (nos.)	830,605
Daily Avg Turnover (US\$ mn)	92.4

Shareholding Pattern Sep '18

Promoters	56.2%
FIIIs	22.8%
DIIIs	13.4%
Public and Others	7.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(16)	(31)	(25)	(15)
Rel. to Nifty	(8)	(24)	(21)	(13)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Actual vs Estimate

(Rs mn)	Actual	Estimate		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (net sales + other operating income)	224,332	219,286	222,828	2.3	0.7	Slightly above estimate due to receipt of engineering services fees from Suzuki
EBITDA	34,313	30,347	32,044	13.1	7.1	
EBITDA margin (%)	15.3	13.8	14.4	146 bps	91 bps	Margin above estimate due to higher-than-expected gross margin led by cost cutting initiatives and receipt of engineering service fees
Reported net profit	22,404	18,007	20,160	24.4	11.1	Above estimate due to higher-than-expected EBITDA and other income

Source: Emkay Research, Company

Exhibit 2: Quarterly Financial Summary

Rs mn	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	YoY (%)	QoQ (%)	FY19 YTD	FY18 YTD	YoY (%)
Revenue	175,457	217,682	192,832	211,656	224,594	224,332	3.1	(0.1)	448,926	393,139	14.2
Expenditure	152,145	180,907	162,454	181,506	191,083	190,019	5.0	(0.6)	381,102	333,052	14.4
as % of sales	86.7	83.1	84.2	85.8	85.1	84.7			84.9	84.7	
Consumption of RM	122,884	149,780	133,323	143,763	155,020	152,849	2.0	(1.4)	307,869	272,664	12.9
as % of sales	70.0	68.8	69.1	67.9	69.0	68.1			68.6	69.4	
Employee Cost	6,521	6,666	6,869	8,282	7,652	7,917	18.8	3.5	15,569	13,187	18.1
as % of sales	3.7	3.1	3.6	3.9	3.4	3.5			3.5	3.4	
Other expenditure	22,740	24,461	22,262	29,461	28,411	29,253	19.6	3.0	57,664	47,201	22.2
as % of sales	13.0	11.2	11.5	13.9	12.6	13.0			12.8	12.0	
EBITDA	23,312	36,775	30,378	30,150	33,511	34,313	(6.7)	2.4	67,824	60,087	12.9
Depreciation	6,839	6,825	6,890	7,025	7,198	7,212	5.7	0.2	14,410	13,664	5.5
EBIT	16,473	29,950	23,488	23,125	26,313	27,101	(9.5)	3.0	53,414	46,423	15.1
Other Income	6,827	5,229	2,449	5,950	2,718	5,266	0.7	93.7	7,984	12,056	(33.8)
Interest	313	150	263	2,731	207	257	71.3	24.2	464	463	0.2
PBT	22,987	35,029	25,674	26,344	28,824	32,110	(8.3)	11.4	60,934	58,016	5.0
Total Tax	7,423	10,186	7,684	7,523	9,071	9,706	(4.7)	7.0	18,777	17,609	6.6
Adjusted PAT	15,564	24,843	17,990	18,821	19,753	22,404	(9.8)	13.4	42,157	40,407	4.3
Extra ordinary items	-	-	-	-	-	-			-	-	-
Reported PAT	15,564	24,843	17,990	18,821	19,753	22,404	(9.8)	13.4	42,157	40,407	4.3
Adjusted EPS	51.5	82.3	59.6	62.3	65.4	74.2	(9.8)	13.4	139.6	133.8	4.3

Margins (%)							(bps)	(bps)				(bps)
EBIDTA	13.3	16.9	15.8	14.2	14.9	15.3	(160)	37	15.1	15.3	(18)	
EBIT	9.4	13.8	12.2	10.9	11.7	12.1	(168)	36	11.9	11.8	9	
EBT	13.1	16.1	13.3	12.4	12.8	14.3	(178)	148	13.6	14.8	(118)	
PAT	8.9	11.4	9.3	8.9	8.8	10.0	(143)	119	9.4	10.3	(89)	
Effective Tax rate	32.3	29.1	29.9	28.6	31.5	30.2	115	(124)	30.8	30.4	46	

Source: Emkay Research, Company

Exhibit 3: Change in estimates

Rs mn	FY19E				FY20E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Volumes (Units)	1,998,148	1,956,399	(2.1)	9.9	2,264,653	2,204,975	(2.6)	12.7
Sales	939,790	903,832	(3.8)	13.3	1,109,630	1,059,409	(4.5)	17.2
EBITDA	147,795	133,853	(9.4)	11.0	177,721	161,116	(9.3)	20.4
Margin (%)	15.7	14.8	(89) bps	(31) bps	16.0	15.2	(79) bps	40 bps
Net Profit	100,076	86,991	(13.1)	12.7	125,686	106,499	(15.3)	22.4
EPS	331.4	288.1	(13.1)	12.7	416.2	352.6	(15.3)	22.4

Source: Company, Emkay Research

Concall highlights

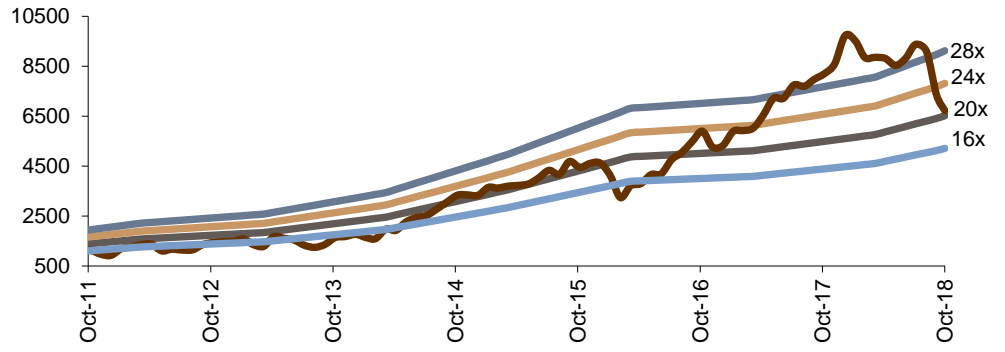
- **Volume expectations for FY19:** Volume target remains double-digit growth in the domestic market. Kerala state volumes are recovering gradually and pent-up demand is expected to materialize in 2-3 months. In comparison, volume could decline in overseas markets due to import restrictions and adverse currency movements.
- **Festive season (Navratri and Diwali period) growth** is expected to be positive; although demand in the initial days of the festival season has been flat, it has started to improve gradually.
- **Rural growth remains strong at 13%**, while urban growth is flattish.
- **The share of petrol vehicles** continues to increase for industry, with Q2 share at 63% vs. 62% qoq.
- **Production ramp-up remains on track:** Phase II of the Gujarat plant with a capacity of 250,000 units is expected in early-2019, and Phase III with a capacity of 250,000 units is expected in mid-2020.
- **New model launches remain a focus area**, with at least one new model per year. In addition, the focus is on new powertrains in Electric, Hybrid, and CNG.
- **Blended discounts have increased** to Rs18,750/unit vs. Rs15,161 qoq and Rs15,200 yoy.
- **Margin was supported by Engineering services fees** (booked in other operating income) of Rs2bn, relating to FY18. Going forward, this fee will be booked on a quarterly basis.
- **Focus remains on reduction of JPY exposure led by:** 1) a reduction in JPY royalties (40% of royalty cost is now paid in INR terms relating to models like Brezza, Swift, Dzire and Ignis), and 2) the localization of imports (Direct and Indirect imports at 5% and 13% of net sales).
- Vendors are setting up plants in Gujarat, and localization levels can be similar to the Haryana plants by 2020, resulting in cost savings.
- Raw material costs in H2FY19 to be impacted by higher steel prices and adverse currency movements.
- Investment book size at Rs330bn with an yield of 8%.
- **Financing ratio at 82%.** No issues being faced by dealers or customers in procuring finance.

Exhibit 4: MSIL revenue assumptions

Key revenue assumptions	FY16	FY17	FY18	FY19E	FY20E
Volume (units)					
Domestic Passenger Cars	1,067,464	1,095,891	1,234,571	1,364,144	1,537,053
YoY %	9.6	2.7	12.7	10.5	12.7
Domestic Utility Vehicles	94,416	195,741	253,759	278,666	324,949
YoY %	38.4	107.3	29.6	9.8	16.6
Domestic Vans	143,471	152,009	155,137	173,753	191,129
YoY %	11.2	6.0	2.1	12.0	10.0
Domestic LCVs		900	10,033	20,066	26,086
YoY %			1,014.8	100.0	30.0
Total Domestic	1,305,351	1,444,541	1,653,500	1,836,629	2,079,216
YoY %	11.5	10.7	14.5	11.1	13.2
Exports	123,897	123,827	126,074	119,770	125,759
YoY %	1.8	-0.1	1.8	-5.0	5.0
Total	1,429,248	1,568,368	1,779,574	1,956,399	2,204,975
YoY %	10.6	9.7	13.5	9.9	12.7
Realization (Rs/unit)	402,589	433,794	448,212	461,987	480,463
YoY %	4.1	7.8	3.3	3.1	4.0
Revenue	575,381	680,348	797,627	903,832	1,059,409
YoY %	15.1	18.2	17.2	13.3	17.2

Source: Company, Emkay Research

Exhibit 5: One-year forward P/E



Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	575,381	680,348	797,627	903,832	1,059,409
Expenditure	486,537	576,831	677,012	769,978	898,294
EBITDA	88,844	103,517	120,615	133,853	161,116
Depreciation	28,202	26,021	27,579	29,296	31,068
EBIT	60,642	77,496	93,036	104,557	130,047
Other Income	14,610	23,001	20,455	22,344	25,254
Interest expenses	815	894	3,457	827	955
PBT	74,437	99,603	110,034	126,074	154,347
Tax	20,794	26,101	32,816	39,083	47,848
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	53,643	73,502	77,218	86,991	106,499
Adjusted PAT	53,643	73,502	77,218	86,991	106,499

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	297,332	362,801	416,063	469,028	530,665
Net worth	298,842	364,311	417,573	470,538	532,175
Minority Interest	0	0	0	0	0
Loan Funds	2,309	4,836	1,108	1,256	1,472
Net deferred tax liability	1,943	4,662	5,589	4,811	3,859
Total Liabilities	303,094	373,809	424,270	476,604	537,506
Net block	125,100	132,927	133,590	146,335	165,267
Investment	199,322	284,810	352,902	391,902	449,902
Current Assets	84,909	82,246	85,950	96,505	113,045
Cash & bank balance	391	138	711	1,065	1,177
Other Current Assets	39,940	37,466	38,981	44,171	51,775
Current liabilities & Provision	116,306	138,697	169,431	187,356	219,926
Net current assets	(31,397)	(56,451)	(83,481)	(90,851)	(106,881)
Misc. exp	0	0	0	0	0
Total Assets	303,094	373,809	424,270	476,604	537,506

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	59,827	76,602	89,579	103,730	129,093
Other Non-Cash items	0	0	0	0	0
Chg in working cap	490	21,940	27,374	2,012	4,303
Operating Cashflow	70,235	79,792	97,395	96,818	117,623
Capital expenditure	(26,450)	(33,723)	(36,380)	(50,000)	(50,000)
Free Cash Flow	43,785	46,069	61,015	46,818	67,623
Investments	(46,592)	(58,541)	(68,092)	(39,000)	(58,000)
Other Investing Cash Flow	768	485	21,651	0	0
Investing Cashflow	(57,664)	(68,778)	(62,366)	(66,656)	(82,746)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(2,353)	2,527	(3,728)	148	216
Dividend paid (incl tax)	(7,552)	(10,573)	(29,128)	(34,027)	(44,862)
Other Financing Cash Flow	(1,537)	(2,126)	1,857	4,899	10,835
Financing Cashflow	(12,363)	(11,267)	(34,456)	(29,808)	(34,765)
Net chg in cash	208	(253)	573	354	112
Opening cash position	183	391	138	711	1,065
Closing cash position	391	138	711	1,065	1,177

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin	15.4	15.2	15.1	14.8	15.2
EBIT Margin	10.5	11.4	11.7	11.6	12.3
Effective Tax Rate	27.9	26.2	29.8	31.0	31.0
Net Margin	9.3	10.8	9.7	9.6	10.1
ROCE	27.4	29.7	28.4	28.2	30.6
ROE	20.0	22.2	19.8	19.6	21.2
RoIC	62.8	91.4	148.0	201.4	233.0

Per Share Data (Rs)	FY16	FY17	FY18	FY19E	FY20E
EPS	177.6	243.4	255.7	288.1	352.6
CEPS	271.0	329.5	347.0	385.1	455.5
BVPS	989.5	1,206.3	1,382.7	1,558.1	1,762.2
DPS	35.0	75.0	80.0	93.6	123.4

Valuations (x)	FY16	FY17	FY18	FY19E	FY20E
PER	37.9	27.6	26.3	23.3	19.1
P/CEPS	24.8	20.4	19.4	17.5	14.8
P/BV	6.8	5.6	4.9	4.3	3.8
EV / Sales	3.2	2.6	2.1	1.8	1.5
EV / EBITDA	20.7	17.0	14.0	12.3	9.9
Dividend Yield (%)	0.5	1.1	1.2	1.4	1.8

Gearing Ratio (x)	FY16	FY17	FY18	FY19E	FY20E
Net Debt/ Equity	(0.6)	(0.7)	(0.8)	(0.8)	(0.8)
Net Debt/EBIDTA	(2.2)	(2.6)	(2.8)	(2.8)	(2.7)
Working Cap Cycle (days)	(20.2)	(30.4)	(38.5)	(37.1)	(37.2)

Growth (%)	FY16	FY17	FY18	FY19E	FY20E
Revenue	15.1	18.2	17.2	13.3	17.2
EBITDA	32.3	16.5	16.5	11.0	20.4
EBIT	42.9	27.8	20.1	12.4	24.4
PAT	44.5	37.0	5.1	12.7	22.4

Quarterly (Rs mn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Revenue	217,682	192,832	211,656	224,594	224,332
EBITDA	36,775	30,378	30,150	33,511	34,313
EBITDA Margin (%)	16.9	15.8	14.2	14.9	15.3
PAT	24,843	17,990	18,821	19,753	22,404
EPS (Rs)	82.3	59.6	62.3	65.4	74.2

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoters	56.2	56.2	56.2	56.2	56.2
FII	25.3	25.8	25.2	23.7	22.8
DII	11.5	11.0	11.5	12.7	13.4
Public and Others	7.0	7.0	7.1	7.4	7.6

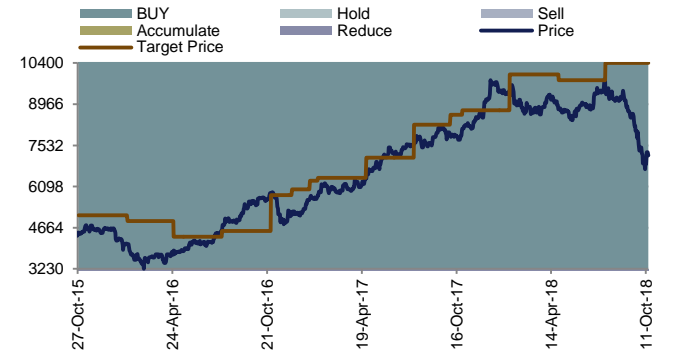
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
26-Jul-18	9,396	10,400	12m	Buy	Raghunandhan NL
28-Apr-18	8,783	9,800	12m	Buy	Raghunandhan NL
25-Jan-18	9,278	10,000	12m	Buy	Raghunandhan NL
27-Oct-17	8,114	8,750	12m	Buy	Raghunandhan NL
4-Oct-17	7,847	8,600	12m	Buy	Raghunandhan NL
4-Sep-17	7,822	8,250	12m	Buy	Raghunandhan NL
27-Jul-17	7,600	8,250	12m	Buy	Raghunandhan NL
27-Apr-17	6,374	7,100	12m	Buy	Mihir Jhaveri
3-Feb-17	6,115	6,400	12m	Buy	Mihir Jhaveri
1-Feb-17	6,179	6,400	12m	Buy	Mihir Jhaveri
25-Jan-17	5,803	6,400	12m	Buy	Mihir Jhaveri
10-Jan-17	5,675	6,300	12m	Buy	Mihir Jhaveri
7-Dec-16	5,117	6,000	12m	Buy	Bibhishan Jagtap
28-Oct-16	5,876	5,800	12m	Buy	Bibhishan Jagtap
27-Jul-16	4,558	4,550	12m	Buy	Kaushal Maroo
26-Apr-16	3,872	4,350	12m	Buy	Kaushal Maroo
9-Feb-16	3,657	4,900	12m	Buy	Kaushal Maroo
29-Jan-16	4,096	4,900	12m	Buy	Kaushal Maroo
26-Nov-15	4,607	5,100	12m	Buy	Kaushal Maroo
28-Oct-15	4,495	5,100	12m	Buy	Kaushal Maroo

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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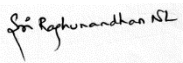
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