

Buy

Maruti Suzuki (MSIL)

Industry: Auto and Auto Components

LKP
Since 1948**Weak Q4, Maintain BUY on expectations of outperformance v/s industry****Subdued Q4 in-line with street estimates**

Maruti Suzuki India Ltd (MSIL)'s Q4 FY19 numbers came in line with our tepid expectations as volumes reflected a negative growth of 0.7% yoy, while showing a sequential improvement of 7%. High base of last year, slowdown in urban demand, higher fuel prices, high interest rates, intensifying competition led to this performance. Realizations growth was 1.4% yoy and 2.4% qoq on better product mix. Revenues grew by 1% yoy and 9.6% qoq. EBITDA margins came in at 10.5%, down from 14.2% yoy, while rising from 9.8% qoq. YoY margin decline was expected on higher RM costs, lower volumes, impact of Gujarat plant ramp up in Phase II (70 bps) and forex impact of 60 bps (qoq). Improvement in sequential margins was due to positive impact of price increase (0.7% qoq), lower discounts (2.2%) and higher scale. Higher depreciation costs due to Gujarat plant ramp-up was somewhat offset by higher other income (46% yoy due to higher fair value gain) and lower tax rates. This led net profits to come at ₹18 bn.

Management guides for 4-8% volume growth in FY20

MSIL witnessed a -0.7% growth in volumes in Q4 and 5.5% growth in FY 2019. This has been a result of several macro headwinds such as rising fuel prices and interest rates, dampening sentiments, intensifying competition and subdued urban demand. Exports business also saw a negative growth of 13% in the year on the back of certain geography specific issues. During the quarter, rural growth was 10% (39% of volumes), while urban was just 2%. Management expects PV industry in FY 20E to grow by 3-5% up from 3% in FY 19. MSIL expects themselves to grow higher than the industry at 4-8% despite increase in competitive intensity. While pre buy ahead of BSVI will benefit volumes in the festive season, the adverse impact on sales during Q1 FY20 (Elections impact) as well as the Mar 2020 registration deadline ahead of the rollout to the stricter emission norms will impact production schedules in 4Q FY 20. Upcoming new launches are expected to lift up volumes.

BS VI related uncertainties to take mainstage

MSIL stated that they will discontinue the usage of small diesel engines and are likely to offer the bigger 1.5Litre engine petrol variants for the larger models. Thus, the LCV Super Carry will only be offered in petrol / CNG variants. Maruti is well positioned from the expected shift away from diesel variants – currently, diesel sales is down to 23% of their overall product mix (which is lower than industry average). The company has started rolling out its BSVI compliant engines across models – the refreshed Baleno as well as the new Alto have been fitted with these powertrains. In all, MSIL has to upgrade 16 models with the new engines – they will do this in phases through the year, rather than bunching up the upgrades. The reason behind this phasing out is that transition of diesel variants to BS VI compliant ones will be economically unviable and may reduce the demand.

Margins to improve on multiple factors

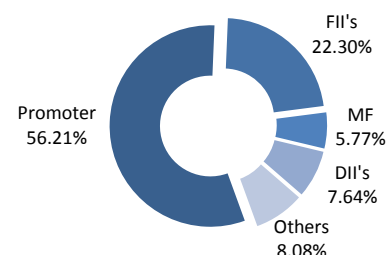
As per the management, 40% of the models have already moved to the new formula of royalty calculations which will insulate MSIL from forex fluctuations and will result in royalty cost reduction as volumes ramp up. Also as volumes increase, the fixed cost at Gujarat plant will get absorbed. Apart from this, the company has taken price hike in January which will further assist margin growth. Furthermore, emphasis on reducing the import content with a target to reduce it by 25% and thereby increasing localization will improve margins. Management indicated that in near-term, margins to be supported by softening commodity prices, favorable movement in forex rates and absence of one-offs (inventory adjustment impact). Margins will also have a positive impact as irrational discounting is not expected to continue.

Stock Data

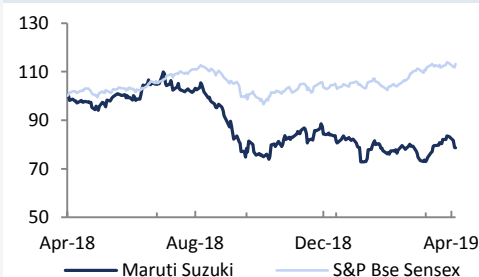
Rating	Buy
Current Market Price(₹)	6,766
12 M Price Target (₹)	7,808
Potential upside (%)	15
FV (₹)	5
Market Cap Full (₹ bn)	2,048
52-Week Range (₹)	9,923 / 6,324
BSE / NSE Code	532500 / MARUTI
Reuters / Bloomberg	MRTI.BO / MSIL IN

What's Changed

12 month Price Target (₹)	8,120 to 7,808
FY2020E EPS (₹)	302 to 282
FY2021E EPS (₹)	331 to 312

Shareholding Pattern (March 2019)

YE Mar	FY18	FY19	FY20E	FY21E
Total sales (₹ bn)	797.6	860.2	936.3	1,023.0
EBITDA margins (%)	15.4	13.2	13.7	14.3
PAT margins (%)	9.9	9.0	9.4	9.6
EPS (₹)	255.7	248.4	282.3	312.3
P/E (x)	26.6	27.4	24.1	21.8
P/BV (x)	4.9	4.5	4.1	3.7
EV/EBITDA (x)	17.0	18.7	16.6	14.5
ROE (%)	18.5	16.3	16.9	17.0
Dividend yield (%)	1.4	1.6	1.8	2.0

Relative Price Performance

All fig in ₹ mn	Q4 FY19	Q3 FY19	% qoq	Q4 FY18	% yoy
Total income	2,14,594	1,96,683	9.1	2,11,656	1.4
Raw material costs	1,54,236	1,40,437	9.8	1,43,763	7.3
Employee costs	8,169	8,811	(7.3)	8,282	(1.4)
Other expenses	29,555	28,124	5.1	29,461	0.3
EBITDA	22,634	19,311	17.2	30,150	(24.9)
EBITDA margins %	10.5%	9.8%	60 bps	14.2%	(380 bps)
Depreciation & Amortization	8,102	7,677	5.5	7,025	15.3
Interest expenses	88	206	(57.3)	2,731	(96.8)
Other income	8,677	9,173	(5.4)	5,950	45.8
PBT	23,121	20,601	12.2	26,344	(12.2)
Tax	5,165	5,708	(9.5)	7,523	(31.3)
Adjusted PAT	17,956	14,893	20.6	18,821	(4.6)
Exceptional items	-	-	NA	-	NA
Reported PAT	17,956	14,893	20.6	18,821	(4.6)

Outlook and valuation

MSIL posted a soft performance in Q4 as volumes and margins both witnessed deceleration. Volumes were impacted by macros and high base, while margins were impacted by firming up of RM costs, adverse currency and Gujarat plant ramp up costs. We re-iterate BUY as we would go with management expectations to sustain market share and grow inline or ahead of the market in FY20. Also MSIL remains well positioned to benefit from the transition to BSVI given its higher share of petrol variants. MSIL's share of diesel now stands at just 23% (lower than the industry mix). On margins front, higher local content, reduction in discounts, price hike and operating leverage at Gujarat plant will have a positive impact. Synergies from the collaboration with Toyota in the exports markets (Africa) will be felt over the medium term. In line with subdued Q4 numbers, we have slightly reduced our volume and margins estimates. Maintain BUY with a reduced target of ₹ 7,808.

Per unit parameters	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19
Net Realisation/unit	4,34,203	4,35,629	4,45,834	4,45,983	4,44,673	4,44,508	4,41,545	4,52,311
Material Cost/unit	3,11,437	3,04,358	3,13,833	3,11,328	3,16,052	3,15,251	3,27,634	3,36,408
Employee cost per unit	16,527	13,546	16,169	17,935	15,601	16,329	20,556	17,818
EBITDA/unit	59,082	74,728	71,508	65,292	68,322	70,771	45,052	49,368
PAT/unit	39,445	50,482	49,715	40,758	40,272	46,208	34,745	39,164

Financials

Income statement

YE Mar (₹ mn)	FY 18	FY 19	FY20E	FY21E
Total Revenues	7,97,627	8,60,203	9,36,304	10,22,958
Raw Material Cost	5,49,750	6,02,542	6,58,474	7,13,130
Employee Cost	28,338	32,549	43,358	51,640
Other Exp	99,915	1,16,340	1,11,114	1,17,572
EBITDA	1,20,615	1,09,993	1,23,958	1,41,215
EBITDA Margin(%)	15.4	13.2	13.7	14.3
Other Income	20,455	25,610	25,610	25,610
Depreciation	27,579	30,189	28,284	30,784
EBIT	1,13,491	1,05,414	1,21,284	1,36,041
EBIT Margin(%)	14.5	12.7	13.4	13.8
Interest	3457	758	1200	1300
PBT	1,10,034	1,04,656	1,20,084	1,34,741
PBT Margin(%)	14.1	12.6	13.3	13.7
Tax	32,816	29,650	34,824	40,422
PAT	77,218	75,006	85,260	94,318
PAT Margins (%)	9.9	9.0	9.4	9.6
Minority interest	0	0	0	0
Exceptional items	0	0	0	0
Adj PAT	77,218	75,006	85,260	94,318
Adj PAT Margins (%)	9.9	9.0	9.4	9.6

Key Ratios

YE Mar (₹ mn)	FY 18	FY 19	FY20E	FY21E
Per Share Data (₹)				
Adj. EPS	255.7	248.4	282.3	312.3
CEPS	347.0	348.3	376.0	414.2
BVPS	1382.7	1527.9	1674.7	1838.8
DPS	94.4	109.4	124.3	137.5
Growth Ratios(%)				
Total revenues	16.7	6.3	8.9	9.1
EBITDA	16.5	-8.8	12.7	13.9
PAT	5.2	-2.9	13.7	10.6
EPS Growth	5.2	-2.9	13.7	10.6
Valuation Ratios (X)				
PE	26.6	27.4	24.1	21.8
P/CEPS	19.6	19.5	18.1	16.4
P/BV	4.9	4.5	4.1	3.7
EV/EBITDA	17.0	18.7	16.6	14.5
Operating Ratios (Days)				
Inventory days	21.0	20.1	22.0	17.0
Receivable Days	6.8	7.0	7.5	8.0
Payables day	0.5	0.7	0.7	2.4
Net Debt/Equity (x)	0.00	0.00	0.00	0.00
Profitability Ratios (%)				
ROCE	16.5	11.1	13.2	14.6
ROE	18.5	16.3	16.9	17.0
Dividend payout	36.9	44.0	44.0	44.0
Dividend yield	1.4	1.6	1.8	2.0

Balance sheet

YE Mar (₹ mn)	FY 18	FY 19	FY 20E	FY 21E
Equity and Liabilities				
Equity Share Capital	1,510	1,510	1,510	1,510
Reserves & Surplus	4,16,063	4,59,905	5,04,236	5,53,809
Total Networth	4,17,573	4,61,415	5,05,746	5,55,319
Net Deferred Tax	5,589	5,640	5,640	5,640
Other long term liabilities	15,853	20,365	20,365	20,365
Long term provisions	265	395	395	395
Current Liab & Prov				
Short term borrowings	1,108	1,496	1,696	1,896
Other current liabilities	42,743	37,433	37,433	37,433
Trade payables	1,04,259	96,330	86,714	81,120
Total provisions	6,311	6,244	6,244	6,244
Total Equity & Liabilities	5,93,701	6,29,318	6,64,233	7,08,412
Assets				
Net block	1,30,473	1,49,567	1,47,000	1,41,216
Capital WIP	21,259	16,001	26,001	41,001
Intangible Assets	3,117	4,511	4,511	4,511
Non current Investments	3,40,729	3,14,695	3,39,695	3,64,695
Other non current assets	326	340	340	340
Total fixed assets				
Current investments	12,173	50,455	50,455	50,455
Cash and Bank	711	1,789	2,364	5,982
Inventories	31,608	33,257	39,689	42,983
Trade receivables	14,618	23,104	18,582	21,632
Loan, Advances & others	30	160	160	160
Other current assets	20,074	14,851	14,851	14,851
Total current Assets	79,214	1,23,616	1,26,101	1,36,063
Total Assets	5,93,701	6,29,318	6,64,233	7,08,412

Cash Flow

YE Mar (₹ mn)	FY 18	FY 19P	FY 20E	FY 21E
PBT	1,11,669	1,04,656	1,20,084	1,34,741
Depreciation	27,598	30,189	28,284	30,784
Interest	3,458	758	1,200	1,300
Chng in working capital	28,058	-18,348	-11,525	-11,939
Tax paid	-30,550	-29,650	-34,824	-40,422
Cash flow from operations (a)	1,17,869	68,161	1,22,424	1,14,463
Capital expenditure	-38,918	-24,742	-55,000	-40,000
Chng in investments	-45,046	-12,248	-25,000	-25,000
Other investing activities	947	-2,733	-4,895	-4,974
(Inc)/dec in Intangible assets	69	-1,394	0	0
(Inc)/dec in Other non curr assets	200	-2,017	-4,895	-4,974
Cash flow from investing (b)	-83,017	-39,723	-84,895	-69,974
Free cash flow (a+b)	34,852	28,438	37,529	44,489
Inc/dec in borrowings	1,108	5,030	200	200
Dividend paid (incl. tax)	-27,268	-31,608	-35,928	-39,746
Other financing activities	-8,262	-758	-1,200	-1,300
Cash flow from financing (c)	-34,422	-27,336	-36,928	-40,846
Net chng in cash (a+b+c)	430	1,102	601	3,644
Closing cash & cash equiv.	711	1,788	2,364	5,982

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