

Maruti Suzuki

Performance Highlights

Y/E March (₹ cr)	1QFY18	1QFY17	% chg (yoy)	4QFY17	% chg (qoq)
Net Sales	17,546	14,945	17.4	18,333	-4.3
EBITDA	2,331	2,215	5.3	2,560	-8.9
EBITDA Margin (%)	13.3	14.8	-153 bp	14.0	-67 bp
Adj. PAT	1,556	1,491	4.4	1,711	-9.0

Source: Company, Angel Research

Result impacted due to material cost, compensation: MSIL's 1QFY18 earnings and margins were below the cons. estimates. Net sales were at ₹17,546cr while PAT was at ₹2,331cr. Net sales, EBITDA and PAT grew by 17.4% / 5.3% 4.4% on yoy basis and were 0.3%/-6.8%/-7.9% against the consensus estimates. While PAT has grown by 4.4% to ₹1,556 in the quarter, there is ₹85cr component on one-off write backs. Adjusted for the one off item PAT could have been higher.

EBITDA margins decline by 153bps: EBITDA was at ₹2,331cr, up 5.3% yoy however margins came in at 13.3% vs. 14.8% in 1QFY17 which. Staff cost grew by 12.6% yoy due to the salary revision while other expenses were up 13.9% yoy. The margin decline mainly occurred as this quarter soaked in the GST related one time compensation costs (~50bps), higher material costs and higher promotional expenses (~30bps). If adjusted for these items, actual margins would be higher than reported margins by ~80bps.

Outlook and valuation: MSIL continues to report double digit numbers due to the strong performance of utility vehicles. Company expects to launch one model each year which is likely to sustain its growth momentum in the near term. The order book for the new vehicles remains strong and company has indicated of increasing its NEXA outlets to 300 from current 266. We believe that 1QFY18 results are one-off in nature and will not recur. We expect 22%/ 21% CAGR in revenue and PAT over next two years. At CMP, MSIL is trading at P/E of 21.5x of its FY2019E earnings. **We value MSIL on 24x of its FY2019E EPS of ₹354 with a target price of ₹8,501 with Accumulate rating on the stock.**

Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net Sales	57,746	68,009	82,443	100,951
% chg	15.9	18.7	21.2	22.7
Net Profit	4,571	7,344	8,629	10,698
% chg	23.2	60.6	17.5	24.0
OPM (%)	15.9	15.4	15.3	15.2
EPS (Rs)	151.4	243.2	285.7	354.2
P/E (x)	50.4	31.3	26.7	21.5
P/BV (x)	8.5	7.2	5.9	4.8
RoE (%)	16.9	22.9	22.0	22.2
RoCE (%)	22.6	23.8	24.1	24.2
EV/Sales (x)	3.7	3.1	2.5	1.9
EV/EBITDA (x)	23.7	20.2	16.4	12.8

Source: Company, Angel Research

ACCUMULATE

CMP	₹7,622
Target Price	₹8,501

Investment Period	12 Months
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Stock Info

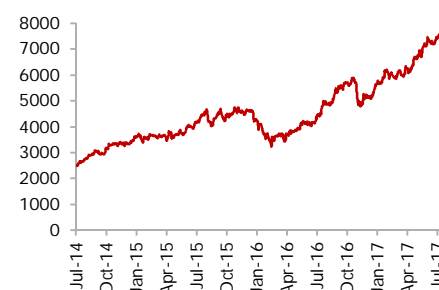
Sector	Automobile
Market Cap (₹ cr)	230,244
Net Debt (₹ cr)	(1,543)
Beta	1.2
52 Week High / Low	7,679/4,570
Avg. Daily Volume	55,788
Face Value (₹)	5
BSE Sensex	32,310
Nifty	10,014
Reuters Code	MRTI.BO
Bloomberg Code	MSIL@IN

Shareholding Pattern (%)

Promoters	56.2
MF / Banks / Indian FIs	11.8
FII / NRIs / OCBs	25.0
Indian Public / Others	7.0

Abs. (%)	3m	1yr	3yr
Sensex	7.9	15.5	23.7
Maruti Suzuki	20.3	70.1	204.4

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly financial performance

Y/E March (‘ cr)	1QFY18	1QFY17	% chg (yoy)	4QFY17	% chg (qoq)
Net Sales	17,546	14,945	17.4	18,333	-4.3
Raw-material cost	12,288	10,154	21.0	12,767	-3.7
(% of Sales)	70.0	67.9		69.6	
Staff cost	652	579	12.6	616	5.9
(% of Sales)	3.7	3.9		3.4	
Other Expenses	2,274	1,997	13.9	2,391	-4.9
(% of Sales)	13.0	13.4		13.0	
Total Expenditure	15,215	12,730	19.5	15,774	-3.5
Operating Profit	2,331	2,215	5.3	2,560	-8.9
OPM (%)	13.3	14.8		14.0	
Interest	31	18	72.9	23	38.5
Depreciation	684	638	7.2	701	-2.4
Other Income	683	488	39.9	449	52.0
PBT (excl. Extr. Items)	2,299	2,047	12.3	2,285	0.6
Extr. Income/(Expense)	0	0		0	
PBT (incl. Extr. Items)	2,299	2,047	12.3	2,285	0.6
(% of Sales)	13.1	13.7		12.5	
Provision for Taxation	742	556	33.5	575	29.2
(% of PBT)	32.3	27.2		25.1	
Reported PAT	1,556	1,491	4.4	1,711	-9.0
Adj PAT	1,556	1,491	4.4	1,711	-9.0
Adj. PATM	8.9	10.0		9.3	
Equity capital (cr)	151	151		151	
Reported EPS (‘)	51.5	49.4	4.4	56.6	-9.0

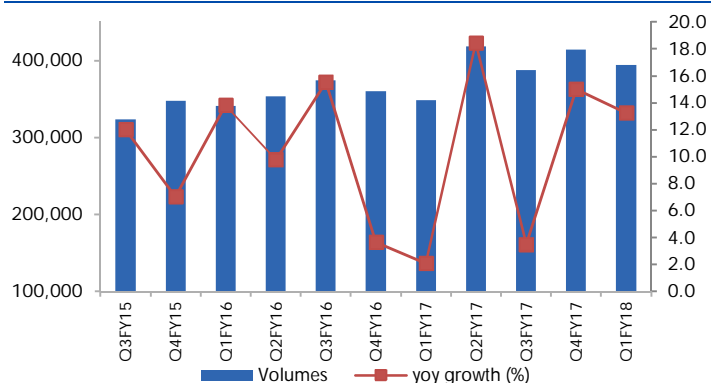
Source: Company, Angel Research

Exhibit 2: Quarterly volume performance

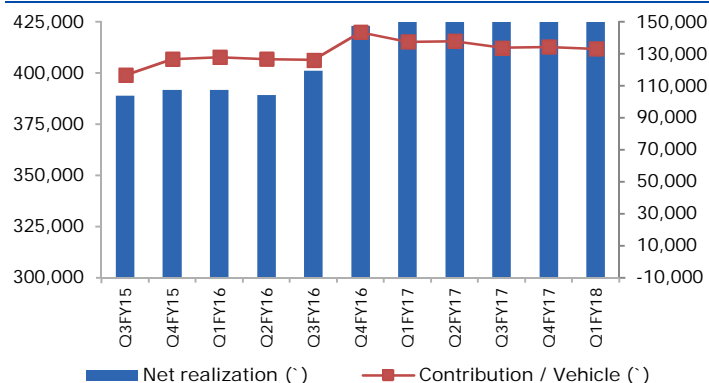
Volume (units)	Q1FY18	Q1FY17	% chg (yoy)	Q4FY17	% chg (qoq)
A: Mini: Alto, WagonR	103,510	92,723	11.6	101,980	1.5
A: Compact: Swift, Ritz, Celerio, Dzire, Baleno	155,314	140,021	10.9	170,259	-8.8
A: Mid-Size: Ciaz	15,698	13,690	14.7	17,334	-9.4
Total Passenger cars	274,522	246,434	11.4	289,573	-5.2
B: Utility Vehicles: Gypsy, Ertiga	57,125	39,348	45.2	52,487	8.8
C: Vans: Omni, Eeco	35,739	36,558	-2.2	40,002	-10.7
D: LCV	1,045	0		606	
Total Domestic (includes LCV)	368,431	322,340	14.3	382,668	-3.7
Total Exports	26,140	26,103	0.1	31,771	-17.7
Total Volume	394,571	348,443	13.2	414,439	-4.8

Source: Company, Angel Research

- Net realizations during the quarter were at `434,203 vs. `421,475 in 1QFY17 and `434,448 in 4QFY17. Realization growth was 3% on yoy basis.
- As a result of increase in the commodity prices, material costs per vehicle inched up 6.9% yoy which led to decline in the margins.
- Domestic volumes grew by 14.3% yoy while exports growth was flat. Total volumes during the quarter were at 394,571 showing a yoy growth of 13.2%.
- Mini/compact/midsize vehicles grew by 11.6%/17.5%/14.7% yoy.
- UVs grew by 45.2% yoy, indicating a sustained momentum of growth in this range.
- During the quarter, company sold 1,045 LCVs compared to 606 LCVs in 4QFY17. LCVs sales were started in 2QFY17.
- Company continues to outperform the industry growth. During the quarter industry growth was 4.8% while company growth was at 14.3%.
- During the quarter company paid royalty of `886cr, or 5.2% of net sales vs. 6.1% of net sales in Q2FY17.
- Company is targeting millennial group (age group 18-28) as potential customers for newly launched hatchback Ignis

Exhibit 3: Growth slows due to demonetisation


Source: Company, Angel Research

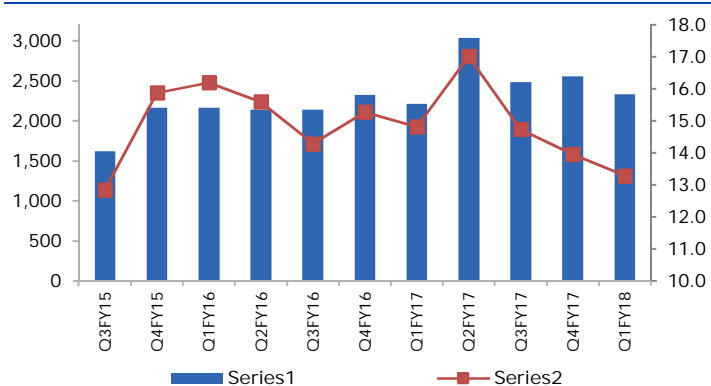
Exhibit 4: Realisation & contribution per vehicle


Source: Company, Angel Research

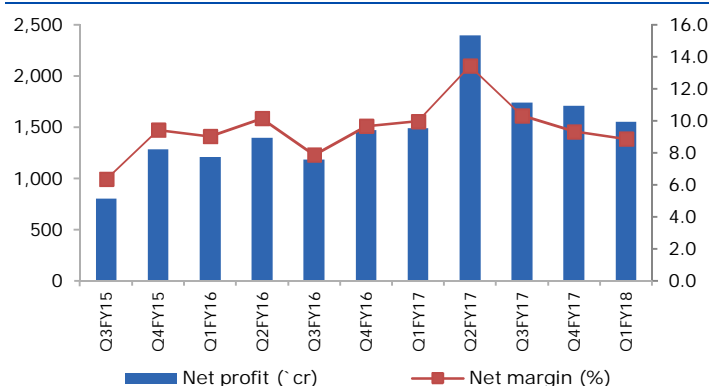
Exhibit 5: Quarterly revenue and realization performance

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	*Q1FY18
Domestic revenue (₹ cr)	13,334	16,030	15,041	16,505	15,632
Change yoy (%)	13.98	29.69	11.09	21.52	17.24
Domestic realization (₹)	413,663	418,494	421,893	431,319	424,297
Change yoy (%)	8.10	9.45	6.88	5.87	2.57
Export revenue (₹ cr)	1,352	1,565	1,583	1,500	1,500
Change yoy (%)	-2.0	38.5	27.1	8.5	10.9
Export realization (₹)	517,948	441,591	514,830	472,129	573,833
Change yoy (%)	33.75	17.49	28.96	-7.73	10.79

Source: Company, Angel Research, * Estimates

Exhibit 6: EBITDA growth at 16%, margins at 14.8%


Source: Company, Angel Research

Exhibit 7: PAT grows despite demonetisation impact


Source: Company, Angel Research

Conference call – Key highlights

- While the industry grew by 4.8% during the quarter, company grew by 14.3% implying gain in the market share.
- Nexa contributes ~20% of MSIL's business.
- Total discounts during the quarter were at ` 16,600 vs. 15,194 in 4QFY17 and ` 16,800 in 1QFY17.
- Company has indicated that demand scenario remains strong and company will bring more efficiency through cost reduction programs.
- During the quarter, company has felt the impact of higher raw material prices, however expects the steady state of the commodity prices going ahead.
- The higher promotional expenses (30bps) and compensation due to the GST (50bps) contributed in decline in the margins.
- The royalty of the new models is still in discussion with Suzuki and company has not given any clarity at this time.
- Company has indicated that the retail sales in June were higher and in the first ten days of July, there was slowdown in retail sales and demand has see pick up now.
- Company expects ~1.5mn vehicles from the existing two plants and 150,000 vehicles from the Gujarat plant in FY18. It also expects to add second line at Gujarat plant in 2019.
- Company has indicated of ~125,000 export volumes in FY18.
- MSIL has guided FY18E full year capex of ` 4,500cr of which ` 900cr has been spend by 1QFY18.
- While all vendors have not moved to Gujarat, company expects the same to change in next three years will all vendors moving to the Gujarat for all the models that MSIL will assemble at the this plant.
- Company has said that Baleno/Dzire /Brezza have 16/16/20 weeks of waiting period.

Investment arguments

- **MSIL outperforming the industry:** MSIL is the largest passenger car manufacturer in the country and enjoys a leadership position. MSIL has been outperforming the industry PV growth. While the industry in volume terms grew by 3.4% from FY13-FY17, MSIL's domestic sales grew by 8.3%. Owing to this, its market share has also grown from ~39% in FY13 to ~50% in early FY18. With the well timed model launches, entry in premium vehicles, and nationwide reach, MSIL has achieved this superior growth record. This theme is likely to continue in our opinion with MSIL maintaining more than 50% market share.
- **MSIL expected to gain market share:** MSIL's major product portfolio is more towards the petrol cars where it enjoys highest market shares among its peers. The lower petrol prices as well as have benefitted the company and continued weakness in crude prices is expected to benefit the company by keeping petrol prices at lower levels. Strong dealership network and improved product mix is expected to benefit the company in gaining further market share. We also expect the passenger vehicle penetration to go up in the country which will help MSIL as it already covers most part of the country through its robust dealership network.
- **Easing capacity constraints:** MSIL has started production at its Gujarat facility which currently has a capacity of 150k vehicles per annum. The plant produced ~24,000 units in the quarter and company expects to increase this numbers going ahead. It also has plans to add another line at this plant which will be operational in 2019.
- **Expansion of Nexa:** MSIL launched NEXA a few years ago in order to sales the premium cars like S-Cross, Baleno, Ciaz, etc. The Nexa dealership has since grown to 266 outlets and company expects to increase Nexa dealerships to 300. The new cars launched by the company are offered through the Nexa and the ramp of the same is expected to be positive on its business.

Outlook and valuation

MSIL continues to report double digit numbers due to the strong performance of its utility vehicles. Company expects to launch one model each year which is likely to sustain its growth momentum in the near term. The order book for the new vehicles remains strong and company has indicated of increasing its NEXA outlets to 300 from current 266. We believe that 1QFY18 results are one off in nature due to the one-off events. We expect 22%/ 21% CAGR in revenue and PAT over next two years. At CMP, MSIL is trading at P/E of 21.5x of its FY2019E earnings. **We value MSIL on 24x of its FY2019E EPS of ` 354 with a target price of ` 8,501 with Accumulate rating on the stock.**

Exhibit 8: Key assumptions

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Domestic unit sales	1,050,859	1,053,688	1,170,702	1,305,351	1,444,542	1,681,872	1,972,281
YoY growth (%)	4.4	0.3	11.1	11.5	10.7	16.4	17.3
Exports unit sales	120,388	101,352	121,713	123,897	124,062	128,994	135,439
YoY growth (%)	-5.5	-15.8	20.1	1.8	0.1	4.0	5.0
Total volumes	1,171,247	1,155,040	1,292,415	1,429,248	1,568,604	1,810,866	2,107,720
YoY growth (%)	3.3	-1.4	11.9	10.6	9.8	15.4	16.4
Per unit domestic realization	405,502	404,719	415,183	431,688	421,652	440,606	462,749
Per unit exports realization	378,784	408,645	380,641	386,797	483,629	540,016	604,818
Per unit realisation (blended)	363,822	369,206	376,083	394,266	426,554	447,688	471,878
YoY growth (%)	18.8	1.5	1.9	4.8	8.2	5.0	5.4
Per unit RM	277,611	271,112	270,873	271,331	297,742	315,081	332,384
YoY growth (%)	12.1	-2.3	-0.1	0.2	9.7	5.8	5.5

Source: Company, Angel Research

Company background

Maruti Suzuki (MSIL), a subsidiary of Suzuki Motor Corporation (SMC), Japan (which holds a 56% stake in MSIL), is the largest passenger car company in India, accounting for ~50% of the domestic passenger car market. MSIL operates from two facilities in India (Gurgaon and Manesar) with an installed capacity of 1.5mn units. Company has commissioned production at Gujarat plant which will help company ease its capacity constraints. Company in the last two years has moved in premium products with launch of Baleno, Vitara, S-Cross and Ciaz. Also, MSIL has steadily increased its presence internationally and exports now account for ~9% of its overall sales and same is expected to increase going ahead.

Profit and loss statement

Y/E March (` cr)	FY2016	FY2017E	FY2018E	FY2019E
Total operating income	57,746	68,009	82,443	100,951
% chg	15.6	17.8	21.2	22.4
Total Expenditure	48,768	57,709	70,073	85,812
Cost of Materials	38,780	46,704	57,057	70,057
Personnel	1,989	2,331	2,813	3,443
Others Expenses	7,999	8,674	10,202	12,312
EBITDA	8,979	10,300	12,370	15,138
% chg	33.7	14.7	20.1	22.4
(% of Net Sales)	15.5	15.1	15.0	15.0
Depreciation & Amort.	2,824	2,603	2,864	3,424
EBIT	6,155	7,697	9,506	11,714
% chg	45.1	25.1	23.5	23.2
(% of Net Sales)	10.7	11.3	11.5	11.6
Interest & other Charges	82	89	117	120
Other Income	462	2,342	2,733	3,264
(% of PBT)	7.1	23.5	22.5	22.0
Recurring PBT	6,535	9,949	12,122	14,858
% chg	34.2	52.2	21.8	22.6
Prior Period & Extra. Exp./(Inc.)	-	-	-	-
PBT (reported)	6,535	9,949	12,122	14,858
Tax	1,964	2,605	3,493	4,160
(% of PBT)	30.0	26.2	28.8	28.0
PAT (reported)	4,571	7,344	8,629	10,698
Add: Share of earnings of asso.	-	-	-	-
Less: Minority interest (MI)	-	-	0	0
PAT after MI (reported)	4,571	7,344	8,629	10,698
ADJ. PAT	4,571	7,344	8,629	10,698
% chg	23.2	60.6	17.5	24.0
(% of Net Sales)	7.9	10.8	10.5	10.6
Basic EPS (`)	151.4	243.2	285.7	354.2
Fully Diluted EPS (`)	151.4	243.2	285.7	354.2
% chg	23.2	60.6	17.5	24.0

Balance sheet statement

Y/E March (` cr)	FY2016	FY2017E	FY2018E	FY2019E
SOURCES OF FUNDS				
Equity Share Capital	151	151	151	151
Reserves & Surplus	26,856	31,934	39,096	47,975
Shareholders' Funds	27,007	32,085	39,247	48,126
Minority Interest	-	-	-	-
Total Loans	231	231	231	231
Deferred Tax Liability	625	625	625	625
Other Liabilities	424	424	424	424
Total Liabilities	28,288	33,366	40,528	49,407
APPLICATION OF FUNDS				
Gross Block	29,409	32,609	37,109	41,609
Less: Acc. Depreciation	16,641	19,244	22,109	25,533
Net Block	12,768	13,365	15,000	16,076
Capital Work-in-Progress	1,007	1,007	1,007	1,007
Investments	17,786	22,080	26,753	32,821
Current Assets	7,635	8,758	11,915	16,835
Inventories	3,132	3,666	4,442	5,450
Sundry Debtors	1,299	1,467	1,777	2,180
Cash	39	146	994	3,735
Loans & Advances	1,807	1,940	2,837	3,183
Other Assets	1,359	1,539	1,865	2,288
Current liabilities	11,059	11,995	14,299	17,484
Net Current Assets	(3,424)	(3,237)	(2,384)	(649)
Deferred Tax Asset	151	151	151	151
Mis. Exp. not written off	-	-	-	-
Total Assets	28,288	33,366	40,528	49,407

Note: Cash and bank balance includes term deposits with banks

Cash flow statement

Y/E March (` cr)	FY2016	FY2017E	FY2018E	FY2019E
Profit before tax	6,535	9,949	12,122	14,858
Depreciation	2,824	2,603	2,864	3,424
Change in Working Capital	1,466	(80)	(6)	1,007
Interest / Dividend (Net)	(80)	89	117	120
Direct taxes paid	(1,910)	(2,605)	(3,493)	(4,160)
Others	(401)	-	-	-
Cash Flow from Operations	8,433	9,957	11,605	15,249
(Inc.)/ Dec. in Fixed Assets	(2,594)	(3,200)	(4,500)	(4,500)
(Inc.)/ Dec. in Investments	(4,582)	(4,294)	(4,673)	(6,068)
Cash Flow from Investing	(7,176)	(7,494)	(9,173)	(10,568)
Issue of Equity	1	-	-	-
Inc./(Dec.) in loans	(235)	0	0	0
Dividend Paid (Incl. Tax)	(755)	(2,266)	(1,467)	(1,819)
Interest / Dividend (Net)	(246)	(89)	(117)	(120)
Cash Flow from Financing	(1,236)	(2,355)	(1,584)	(1,939)
Inc./(Dec.) in Cash	21	107	847	2,742
Opening Cash balances	18	39	146	994
Closing Cash balances	39	146	994	3,735

Note: Closing Cash balances excludes term deposits with banks and unclaimed dividend accounts

Key ratios

Y/E March	FY2016	FY2017E	FY2018E	FY2019E
Valuation Ratio (x)				
P/E (on FDEPS)	50.4	31.3	26.7	21.5
P/CEPS	31.1	23.1	20.0	16.3
P/BV	8.5	7.2	5.9	4.8
Dividend yield (%)	0.5	1.0	0.6	0.8
EV/Sales	3.7	3.1	2.5	1.9
EV/EBITDA	23.7	20.2	16.4	12.8
EV / Total Assets	5.4	4.6	3.7	2.9
Per Share Data (₹)				
EPS (Basic)	151.4	243.2	285.7	354.2
EPS (fully diluted)	151.4	243.2	285.7	354.2
Cash EPS	244.9	329.4	380.6	467.6
DPS	35.0	75.0	48.6	60.2
Book Value	894.3	1,062.4	1,299.6	1,593.6
Returns (%)				
ROCE	22.6	23.8	24.1	24.2
Angel ROIC (Pre-tax)	65.4	76.3	81.0	99.3
ROE	16.9	22.9	22.0	22.2
Turnover ratios (x)				
Asset Turnover (Gross Block)	2.0	2.1	2.2	2.4
Inventory / Sales (days)	20	20	20	20
Receivables (days)	8	8	8	8
Payables (days)	49	44	44	44
WC cycle (ex-cash) (days)	(21)	(16)	(16)	(16)

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2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)