27 April 2017

4QFY17 Results Update | Sector: Automobiles

# Maruti Suzuki

| BSE SENSEX | S&P CNX |
|---|---|
| 30,030 | 9,342 |

| | |
|---|---|
| Bloomberg | MSIL IN |
| Equity Shares (m) | 302 |
| M.Cap.(INRb)/(USDb) | 1,915.8 / 29.8 |
| 52-Week Range (INR) | 6444 / 3730 |
| 1, 6, 12 Rel. Per (%) | 4/1/50 |
| Avg Val, INRm | 3618 |
| Free float (%) | 43.8 |

**Financials & Valuations (INR b)**

| Y/E Mar | 2017 | 2018E | 2019E |
|---|---|---|---|
| Net Sales | 682.7 | 816.1 | 945.3 |
| EBITDA | 104.6 | 130.7 | 156.0 |
| PAT | 74.5 | 91.2 | 111.2 |
| Cons. EPS(INR) | 253.2 | 307.6 | 374.1 |
| Gr. (%) | 62.8 | 21.5 | 21.6 |
| BV/Sh (INR) | 1,083.1 | 1,313.0 | 1,596.9 |
| RoE (%) | 22.4 | 23.0 | 23.1 |
| RoCE (%) | 30.7 | 30.9 | 30.5 |
| P/E (x) | 24.7 | 20.4 | 16.7 |
| P/BV (x) | 5.8 | 4.8 | 3.9 |

**Estimate change** ⟷

**TP change** ⟷

**Rating change** ⟷

## CMP: INR6,371 TP: INR7,319(+15%) Buy

## In-line; 4Q reflects cost inflation, but expect Gujarat ramp-up impact in 1HFY18

- **Pre-operative costs pull down reported EBITDA margin:** Net sales grew ~20% YoY (+9% QoQ) to ~INR183.3b (est. of ~INR186.4b), driven by 5% YoY growth (+2% QoQ) in realizations to ~INR442k (est. of ~INR450k). Adjusted EBITDA (for pre-operative costs) grew 15% YoY (+8% QoQ) to ~INR26.8b (est. of INR27.2b). Adjusted EBITDA margin shrunk ~20bp QoQ (-70bp YoY) to 14.6% (in-line), dragged by higher RM costs (+40bp QoQ). Further, lower other income restricted adjusted PAT growth to ~22% YoY (+3% QoQ to ~INR18b; est. of ~INR18.2b). Dividend is raised from INR35/share to INR75/share YoY, implying 37% payout (~24% in FY16).
- **Earnings call highlights:** a) Capacities can support up to 12% growth, but there is headroom to stretch, if needed. b) Waiting period on Ignis at 8-10 weeks. c) Impact of commodity price inflation largely reflected in 4QFY17. d) Discounts were lower by ~INR3,854/unit QoQ to ~INR15.2k (~90bp contribution at EBITDA level). e) All future new model agreement would have INR-based royalty. f) Recurring impact of Gujarat plant negligible in 4QFY17, to impact 1HFY18.
- **Valuation and view:** We remain positive considering a) multi-year favorable product lifecycle, b) improvement in product mix, c) reducing JPY exposure, d) high FCF generation and sharp improvement in RoIC as capex intensity reduces and e) scope for further improvement in payout. The stock trades at 21.2x/17.2x FY18E/19E consolidated EPS. Maintain **Buy** with a target price of INR7,319 (~20x Mar-19 core EPS + ~INR1,387 cash/share).

**Quarterly Performance (Standalone)**

| | FY16 | | | | FY17E | | | | FY16 | FY17E | FY17E | Var |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | 4QE | (%) |
| Total Volumes (nos) | 341,329 | 353,335 | 374,182 | 360,354 | 348,443 | 418,470 | 387,251 | 414,439 | 1,429,200 | 1,568,603 | 414,439 | 0.0 |
| Change (%) | 13.8 | 9.8 | 15.5 | 3.9 | 2.1 | 18.4 | 3.5 | 15.0 | 10.6 | 9.8 | 15.0 | |
| Realizations (INR/car) | 391,907 | 392,013 | 401,227 | 423,023 | 428,202 | 426,382 | 435,500 | 442,367 | 401,954 | 433,729 | 449,769 | -1.6 |
| Change (%) | 2.8 | 2.5 | 3.1 | 7.6 | 9.3 | 8.8 | 8.5 | 4.6 | 4.0 | 7.9 | 5.8 | |
| **Net operating revenues** | **133,769** | **138,512** | **150,132** | **152,438** | **149,204** | **178,428** | **168,648** | **183,334** | **574,473** | **680,348** | 186,402 | -1.6 |
| Change (%) | 17.1 | 12.5 | 19.1 | 11.9 | 11.5 | 28.8 | 12.3 | 20.3 | 15.0 | 18.4 | 21.7 | |
| RM Cost (% of sales) | 67.4 | 66.9 | 68.6 | 66.1 | 67.9 | 67.7 | 69.2 | 69.6 | 67.4 | 68.7 | 68.8 | 80BP |
| Staff Cost (% of sales) | 3.5 | 3.0 | 3.3 | 3.9 | 3.9 | 2.9 | 3.7 | 3.4 | 3.4 | 3.4 | 3.7 | -40BP |
| Other Cost (% of sales) | 12.9 | 13.9 | 13.8 | 14.7 | 13.4 | 12.4 | 12.4 | 12.4 | 13.9 | 12.5 | 12.9 | -50BP |
| **EBITDA** | **21,673** | **22,457** | **21,452** | **23,293** | **22,157** | **30,374** | **24,890** | **26,787** | **87,936** | **104,710** | **27,209** | -1.5 |
| EBITDA Margins (%) | 16.2 | 16.2 | 14.3 | 15.3 | 14.9 | 17.0 | 14.8 | 14.6 | 15.3 | 15.4 | 14.60 | 0BP |
| Depreciation | 6,716 | 6,694 | 7,221 | 7,599 | 6,389 | 6,300 | 6,349 | 7,010 | 28,202 | 26,021 | 6,929 | 1.2 |
| **EBIT** | **14,957** | **15,763** | **14,231** | **15,694** | **15,768** | **24,074** | **18,541** | **19,777** | **59,734** | **78,689** | **20,280** | |
| EBIT Margins (%) | 11.2 | 11.4 | 9.5 | 10.3 | 10.6 | 13.5 | 11.0 | 10.8 | 10.4 | 11.6 | 10.9 | |
| Interest | 190 | 178 | 244 | 203 | 181 | 197 | 290 | 226 | 815 | 894 | 207 | 9.2 |
| Non-Operating Income | 2,065 | 4,736 | 2,425 | 5,384 | 4,833 | 8,126 | 5,919 | 4,449 | 14,610 | 22,798 | 5,080 | -12.4 |
| Extraordinary Expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,180 | 0 | 1,180 | 1,484 | |
| **PBT** | **16,832** | **20,321** | **16,412** | **20,875** | **20,420** | **32,003** | **24,170** | **22,820** | **73,529** | **99,413** | **23,669** | -3.6 |
| Effective Tax Rate (%) | 28.2 | 26.3 | 27.9 | 29.3 | 27.2 | 25.1 | 27.8 | 25.1 | 28.3 | 26.2 | 27.5 | -240BP |
| **PAT** | **12,081** | **14,973** | **11,830** | **14,762** | **14,862** | **23,980** | **17,445** | **17,090** | **52,735** | **73,377** | **17,155** | |
| **Adjusted PAT** | **12,081** | **14,973** | **11,830** | **14,762** | **14,862** | **23,980** | **17,445** | **17,974** | **52,735** | **74,248** | **18,231** | -1.4 |
| Change (%) | 58.5 | 73.6 | 42.7 | 14.9 | 23.0 | 60.2 | 47.5 | 21.8 | 42.1 | 40.8 | 16.8 | |

**Jinesh Gandhi** (Jinesh@MotilalOswal.com); +91 22 6129 1524

**Jigar Shah** (Jigar.Shah@MotilalOswal.com); Deep Shah (Deep.S@MotilalOswal.com)

### Volume growth recovers post demonetization; Realizations at all-time high

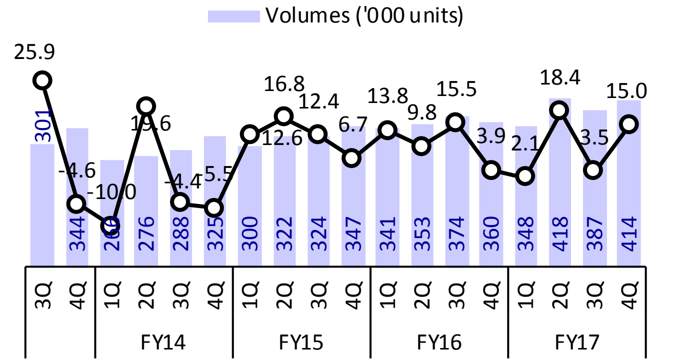
- Volume for 4QFY17 grew 15% YoY (+7% QoQ) to 414k units, led by improving situation post demonetization. However, MSIL was better placed compared to its peers, primarily due to waiting periods in Baleno and Brezza, which accounted for bulk of growth.
- Export volumes grew 18% YoY (+3% QoQ), while domestic volumes rose 15% YoY (+7% QoQ). Growth for MSIL during the quarter was driven by continued momentum in UV volumes led by Vitara Brezza. The entry-level segment continued to be under pressure as rural growth is still recovering gradually from the impact of demonetization.
- Domestic market share for MSIL increased 20bp YoY to 52.7% (+130 bp QoQ) in 4QFY17. We expect MSIL's market share to improve going forward on the back of incremental volumes of recently launched Ignis, along with robust volumes of Baleno and Brezza, which still continue to enjoy high waiting periods.
- Realizations grew ~5% YoY (+2% QoQ) to ~INR442.4k (est. of INR449.8k). Improved product mix on account of higher volumes of Baleno and Brezza boosted realizations.
- As a result, net revenues grew ~20% YoY (+9% QoQ) to ~INR183b (est. of ~INR186.4b).

**Exhibit 1: MSIL's domestic PV market share expected to rise going ahead on the back of launch of Ignis**

| ('000 units) | 4QFY17 | 4QFY16 | YoY (%) | 3QFY16 | QoQ (%) | FY17 | FY16 | YoY (%) |
|---|---|---|---|---|---|---|---|---|
| A1 | 0.0 | 0.0 | | 0.0 | | 0.0 | 0.0 | |
| % of total | 0.0 | 0.0 | | 0.0 | | 0.0 | 0.0 | |
| MPV | 40.0 | 35.9 | 11.5 | 34.3 | 16.8 | 152.0 | 143.5 | 6.0 |
| % of total | 9.7 | 10.0 | | 8.8 | | 9.7 | 10.0 | |
| A2 | 222.0 | 195.5 | 13.5 | 210.0 | 5.7 | 834.1 | 779.0 | 7.1 |
| % of total | 53.6 | 54.2 | | 54.2 | | 53.2 | 54.5 | |
| A3 | 67.6 | 71.5 | -5.4 | 60.7 | 11.3 | 261.8 | 288.5 | -9.3 |
| % of total | 16.3 | 19.8 | | 15.7 | | 16.7 | 20.2 | |
| UV | 52.5 | 30.5 | 72.1 | 51.3 | 2.3 | 196 | 94 | 107.3 |
| % of total | 12.7 | 8.5 | | 13.3 | | 12.5 | 6.6 | |
| Exports | 31.8 | 27.0 | 17.8 | 30.7 | 3.3 | 124.1 | 123.9 | 0.2 |
| % of total | 7.7 | 7.5 | | 7.9 | | 7.9 | 8.7 | |
| **Total Sales** | **413.9** | **360.5** | **14.8** | **387.1** | **6.9** | **1,567.7** | **1,429.2** | **9.7** |
| **Total PV (Incl Exports) MS (%)** | **42.1** | **40.3** | **180bp** | **40.4** | **180bp** | **41.3** | **41.4** | **-0.3** |
| **Total Dom. Car MS (%)** | **52.7** | **52.6** | **20bp** | **51.4** | **20bp** | **52.7** | **52.2** | **1.1** |
| **Total Domestic PV MS (%)** | **47.7** | **45.5** | **220bp** | **47.6** | **220bp** | **45.5** | **47.7** | **-4.6** |

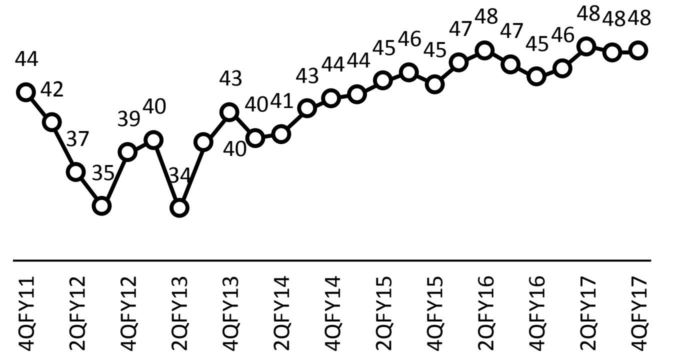
Source: Company, MOSL

**Exhibit 2: Volume growth recovers post demonetization, up 15% YoY**



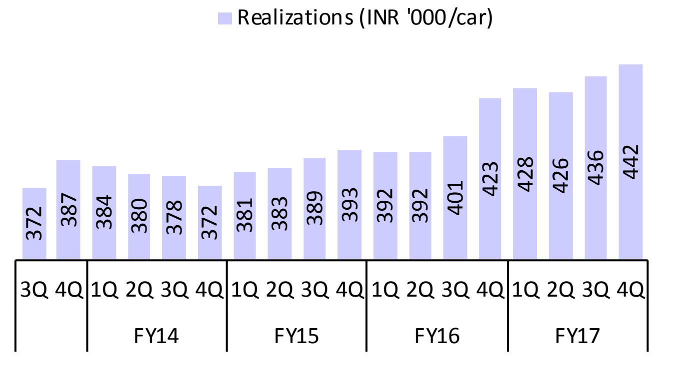

Source: Company, MOSL

**Exhibit 3: Domestic PV market share steady at 48% in 4QFY17**



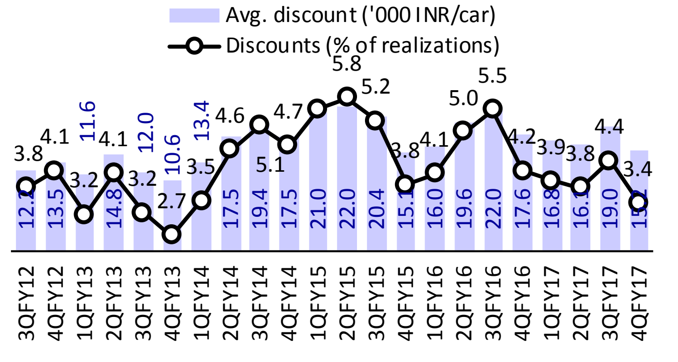

Source: Company, MOSL

**Exhibit 4: Realizations rise 5% YoY led by new product launches and lower discounts**




Source: Company, MOSL

**Exhibit 5: Discounts lowest in last 8 quarters, to remain low led by favorable product mix**

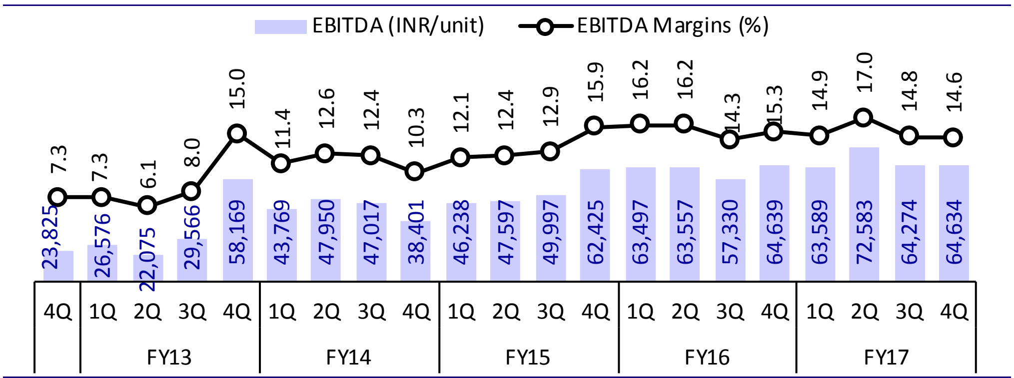



Source: Company, MOSL

## Higher RM and employee costs keep EBITDA margins under check

- Gross margins at ~30.4% declined 40 bp QoQ (-360bp YoY), led by impact of inclusion of Gujarat plant cost at gross margin level, partially offset by lower discounts (decline ~90bp QoQ).
- Adjusted for pre-operative expenses of ~INR1.18b, EBITDA margins are at 14.6% (in-line), down 20bp QoQ (-70bp YoY), impacted by higher selling expenses (new launches related).
- Adjusted EBITDA grew 15% YoY (+8% QoQ) to ~INR26.8b (est. of INR27.2b).
- Adj. PAT grew by ~22% YoY (+3% QoQ) to ~INR18b (est. of ~INR18.2b), impacted by lower other income (-17% YoY), but partly supported by a lower tax rate.

**Exhibit 6: Gujarat plant commissioning impacts margin slightly**




Source: Company, MOSL

## Earnings call highlights

- **Growth prospects**: As per management, despite all the legal headwinds, it would be aiming for a 10% growth in FY18 and has headroom to stretch if required. The export is likely to remain flat in FY18 led by lower sales in African markets, and Sri Lankan market but to be off-set by higher sales in Japan and EU markets.
- **Diesel Mix** for MSIL stood at 30% for 4QFY17 with a volume of 115,335 units.
- **Customer mix:** Share of government employees stood at 20%. First time buyers were at 44% and 28% each additional buyers & rest. Fleet formed 6% of its sales still not at significant level.
- **Average discounts declined to INR15,194 per unit** (lower by ~INR3850/unit QoQ and lower by ~INR 2.4k YoY) ~90bp contribution at EBITDA level.
- **Gujarat plant update:** 4QFY17 has ~INR1.2b (v/s est INR1.5b) of pre-operative expenses for Gujarat plant (non-recurring). Adj for this EBITDA margins were at 14.6% (in-line). Recurring impact of negative operating leverage and higher freight cost of Gujarat plant was negligible in 4Q. This is expected to fully reflect in 1HFY18, which as per our estimate would be 80-100bp on 1HFY18 EBITDA margins.
- **Waiting period**: Ignis has a waiting period of 8-10 weeks.
- **Dealerships**: In FY17, it added 365 dealer outlet (~19%) to ~2,312 outlets
- **Selling expenses** were higher in 4QFY17 led by Ignis launch and stepped up selling post demonetization.
- **Royalty** in 4QFY17 was INR9.5b and INR38.5b for FY17 (v/s 6.1% in 2QFY17). The royalty was lower led by INR600m benefit of exchange rate of 3QFY17 in 4QFY17 which is likely to reverse in 1QFY18.
- **Capex:** For FY18, it is targeting to invest ~INR45b in capex (v/s ~INR32b in FY17) towards product development, R&D, land acquisition and maintenance (higher maintenance requirement for aging Gurgaon/Manesar plant). It expects to make significant progress in FY18 on land acquisition for network expansion. It has created a separate dedicated vertical for this, which has identified ~75 land parcels for acquisition. Management clarified that it wouldn't be acquiring land of any existing dealership.

## Valuation and view

- **Multi-year favorable product lifecycle for MSIL:** We believe MSIL could emerge as the biggest beneficiary of impending demand recovery, considering its stronghold in the worst-impacted entry-level segment as well as favorable product lifecycle. MSIL's new launches targeted toward filling gaps in its portfolio are likely to improve its overall product mix. We estimate MSIL would gain market share further, driven by 12% volumes CAGR over FY17-19E. This, coupled with improvement in mix and reduction in discounts, would drive revenue CAGR of ~17% over FY17-19E.
- **EBITDA margins to remain healthy:** MSIL's margins are estimated to increase from 15.4% in FY17 to ~16.5% in FY19 due to a) discounts reduction with demand revival, b) mix improvement, c) benefits of operating leverage and d) reducing exposure to JPY due to exports to Japan and royalty based on INR for new products. This is after factoring in for impact of Gujarat plant, which would impact FY18 EBIT margins by ~40bp.

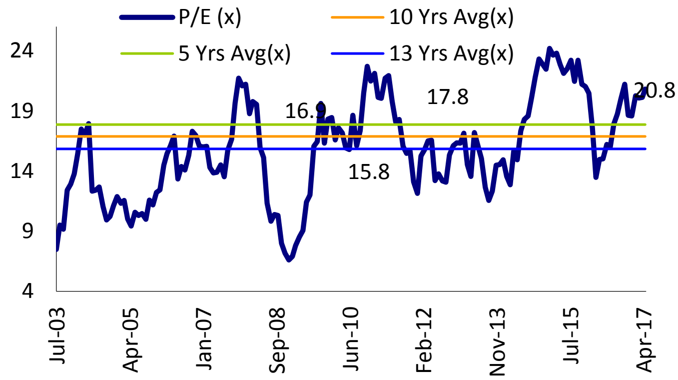
- **Strong margins, asset-light model to result in strong FCF generation and RoE improvement:** The Gujarat plant arrangement with its parent Suzuki will make MSIL's business asset-light, thereby allowing management to focus more on marketing. We expect strong cumulative FCF generation of ~INR199b over FY18-19E, after budgeting for annual capex of ~INR40b. RoE is estimated to improve 120bp to ~21.5%, while RoIC is likely to improve by ~36pp to ~97% by FY19E.
- **Structural improvement in business to drive further re-rating**: All business/financial parameters have substantially improved over last few years and are expected to strengthen further (refer Exhibit 55). Business parameters such as industry consolidation, market share improvement, reduced JPY exposure and improving share of premium products have improved MSIL's positioning considerably. Further, we see headroom for further improvement in dividend payout. Consequently, we expect financial parameters to exhibit improvements over next five years. In summary, the moat for MSIL is expected to strengthen further, which should lead to further re-rating of the stock.
- **Buy with TP of ~INR7,349:** We remain positive on MSIL, considering a) multi-year favorable product lifecycle, c) improvement in product mix (increasing share of premium products) aiding realizations and consequently margins, d) reducing JPY exposure, e) improvement in FCF conversion and f) high FCF generation and sharp improvement in RoIC. The stock trades at 21.2x/17.2x FY18E/19E EPS. Maintain **Buy** with a target price of INR7,319 (~20x Mar-19 Core EPS + ~INR1,387 cash/share). MSIL is one of our top-picks in the Auto sector.

**Exhibit 7: Revised forecast**

| (INR B) | FY18E | | | FY19E | | |
|---|---|---|---|---|---|---|
| | Rev | Old | Chg (%) | Rev | Old | Chg (%) |
| **Total Volumes ('000)** | **1,777** | **1,792** | **-0.8** | **1,970** | **2,001** | **-1.5** |
| Domestic | 1,645 | 1,660 | -0.9 | 1,839 | 1,868 | -1.5 |
| Exports | 132 | 131 | 0.1 | 131 | 133 | -1.8 |
| Net Sales | 795 | 804 | -1.2 | 923 | 932 | -0.9 |
| EBITDA | 128 | 128 | 0.3 | 154 | 153 | 1.2 |
| **EBITDA Margin (%)** | **15.9** | **15.6** | **20bp** | **16.5** | **16.2** | **30bp** |
| PAT | 88.9 | 88.8 | 0.2 | 110.2 | 108.4 | 1.7 |
| **Consol EPS (Rs)** | 300.0 | **299.4** | **0.2** | 370.9 | **364.9** | **1.6** |
| Cash EPS (Rs) | 401.1 | 399.8 | 0.3 | 482.6 | 476.4 | 1.3 |
| JPY/INR | 0.65 | 0.65 | 0.0 | 0.68 | 0.66 | 2.0 |

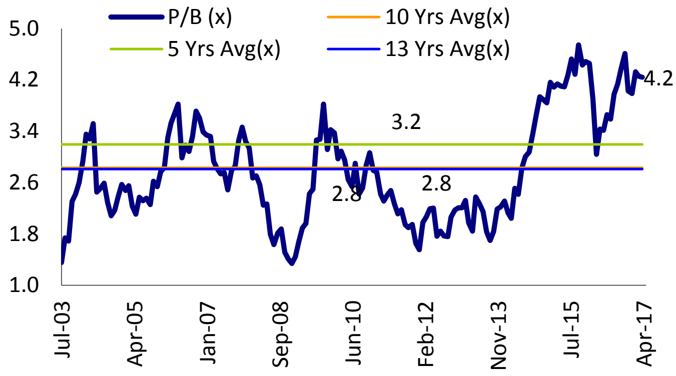
Source: MOSL

**Exhibit 8: MSIL 1 year forward PE (x) near LPA**




Source: MOSL

**Exhibit 9: MSIL 1 year forward PB (x) at premium to LPA**




Source: MOSL

**Exhibit 10: Comparative valuation**

| | CMP | Rating | TP | P/E (x) | | EV/EBITDA (x) | | RoE (%) | | Div Yield (%) | | EPS CAGR (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Auto OEM's** | (INR)* | | (INR) | FY18E | FY19E | FY18E | FY19E | FY18E | FY19E | FY18E | FY19E | FY17-19E |
| Bajaj Auto | 2,861 | Buy | 3,414 | 18.5 | 16.4 | 13.0 | 11.1 | 30.2 | 30.0 | 2.6 | 3.1 | 14.1 |
| Hero MotoCorp | 3,297 | Neutral | 3,390 | 17.8 | 17.5 | 11.7 | 11.5 | 36.2 | 31.9 | 2.7 | 2.7 | 4.6 |
| TVS Motor | 503 | Buy | 581 | 30.1 | 18.8 | 20.0 | 12.9 | 29.2 | 35.9 | 0.6 | 0.9 | 50.9 |
| M&M | 1,338 | Buy | 1,573 | 17.7 | 15.0 | 14.5 | 12.3 | 13.9 | 14.7 | 1.5 | 1.5 | 20.5 |
| Maruti Suzuki | 6,371 | Buy | 7,349 | 21.2 | 17.2 | 12.6 | 10.5 | 20.7 | 21.5 | 0.9 | 1.1 | 22.1 |
| Tata Motors | 456 | Buy | 619 | 15.5 | 7.4 | 4.3 | 2.5 | 11.0 | 19.7 | 0.1 | 0.1 | 131.9 |
| Ashok Leyland | 87 | Buy | 98 | 16.8 | 13.1 | 9.0 | 7.1 | 22.3 | 24.9 | 2.3 | 2.6 | 24.9 |
| Eicher Motors | 25,975 | Buy | 28,811 | 30.4 | 24.8 | 24.5 | 20.3 | 40.9 | 36.7 | 0.6 | 0.7 | 30.5 |
| **Auto Ancillaries** | | | | | | | | | | | | |
| Bharat Forge | 1,134 | Buy | 1,266 | 30.5 | 22.4 | 16.6 | 12.8 | 20.5 | 23.7 | 0.9 | 0.9 | 41.6 |
| Exide Industries | 228 | Buy | 270 | 23.2 | 19.1 | 14.8 | 12.2 | 15.0 | 16.0 | 1.0 | 1.0 | 19.1 |
| Amara Raja Batteries | 882 | Buy | 1,084 | 23.7 | 20.3 | 13.9 | 11.9 | 22.9 | 22.0 | 0.6 | 0.7 | 21.7 |
| BOSCH | 22,585 | Neutral | 22,924 | 33.8 | 29.6 | 24.7 | 20.5 | 24.5 | 23.4 | 0.6 | 0.7 | 27.2 |

Source: MOSL

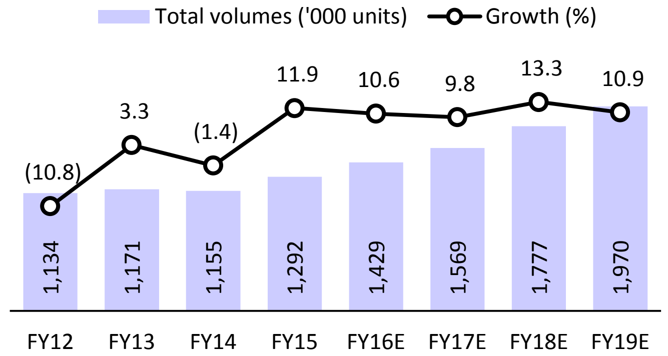
# Story in charts: Expect EPS CAGR of ~22% over FY17-19E

**Exhibit 11: Market leader most segments**

| | FY13 | FY14 | FY15 | FY16 | FY17 |
|---|---|---|---|---|---|
| Mini | 75.4 | 76.7 | 81.4 | 79.8 | 67.8 |
| Compact | 34.2 | 37.6 | 43.1 | 42.0 | 46.2 |
| Compact-Sedan | 80.6 | 63.8 | 53.7 | 58.1 | 54.8 |
| Mid-Size | 2.7 | 2.2 | 15.4 | 25.2 | 32.8 |
| UV1 | 27.4 | 21.1 | 21.4 | 25.6 | 38.2 |
| **Domestic PV** | **39.4** | **42.1** | **45.0** | **46.8** | **47.4** |

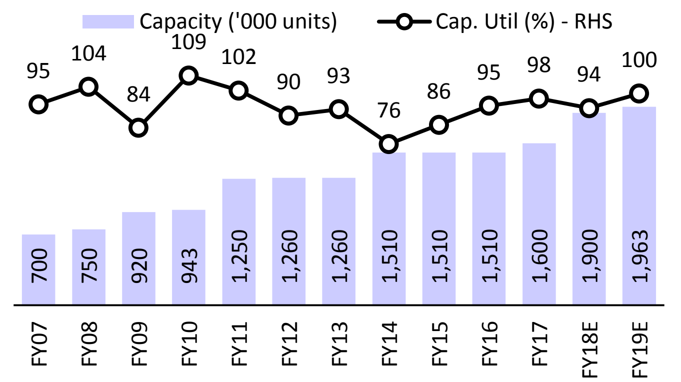
Source: Company, MOSL

**Exhibit 12: Expect ~12% volume CAGR FY17-19E led by ramp up in Guj plant and product refreshes**



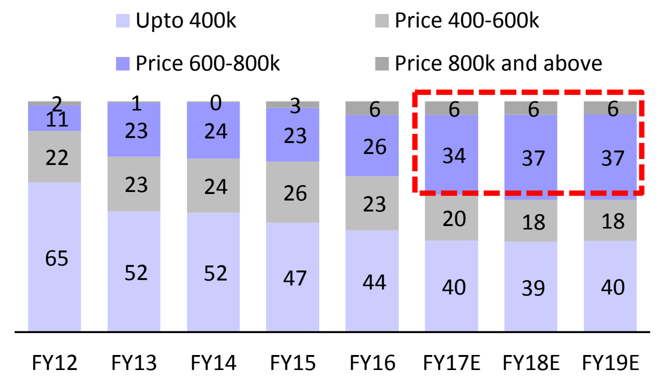

Source: Company, MOSL

**Exhibit 13: MSIL to operate at peak utilization**



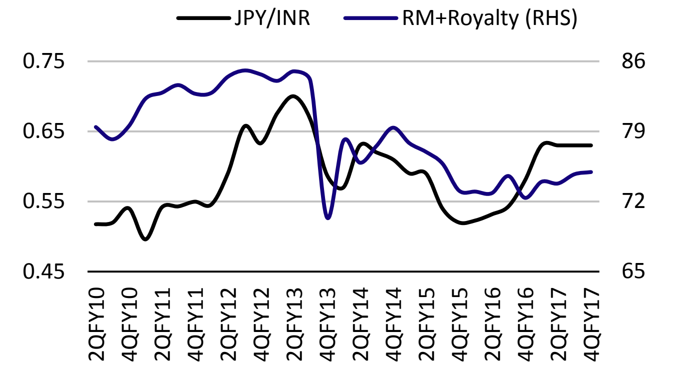

Source: Company, MOSL

**Exhibit 14: Mix to improve in favor of premium products over next couple of years**



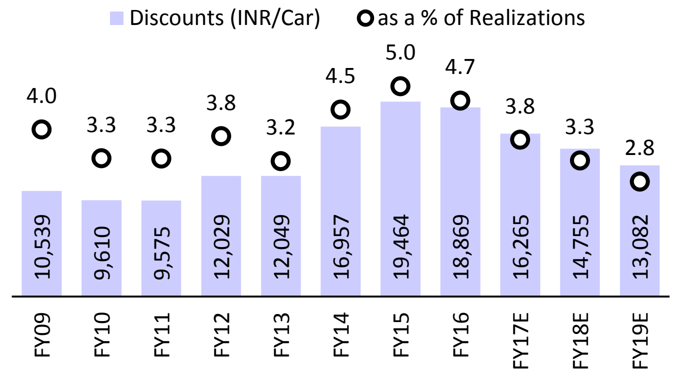

Source: Company, MOSL

**Exhibit 15: JPY/INR influences variable cost meaningfully**



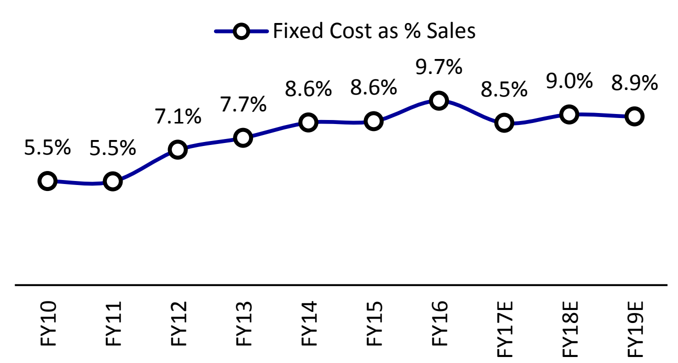

Source: Company, MOSL

**Exhibit 16: Discounts to moderate the over the next 2 year**



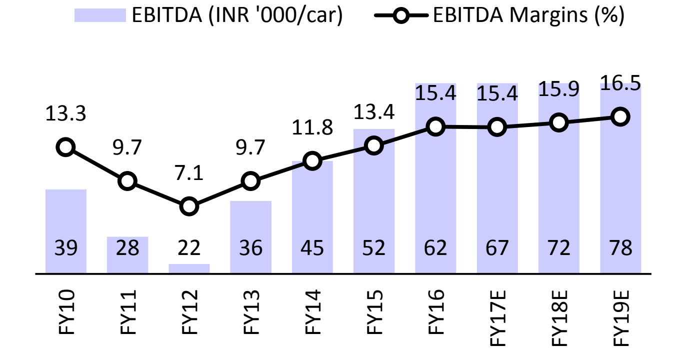

Source: Company, MOSL

**Exhibit 17: Fixed cost as % of Sales**



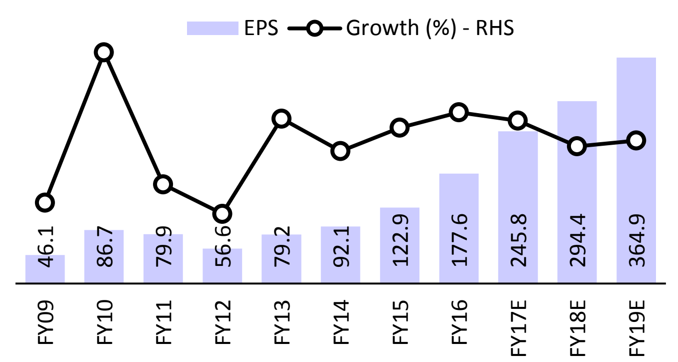

*Source: Company, MOSL*

**Exhibit 18: EBITDA margins and EBITDA per car**



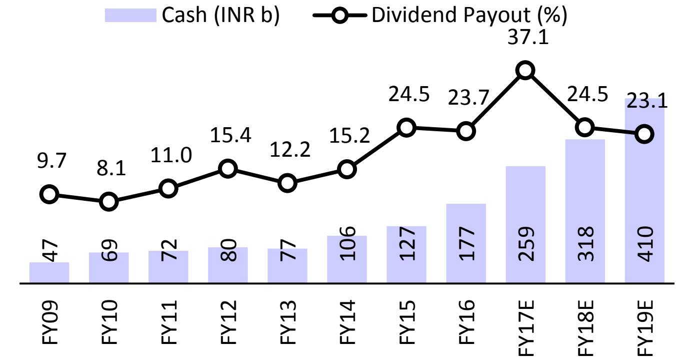

*Source: Company, MOSL*

**Exhibit 19: EPS (INR) and Growth in EPS**



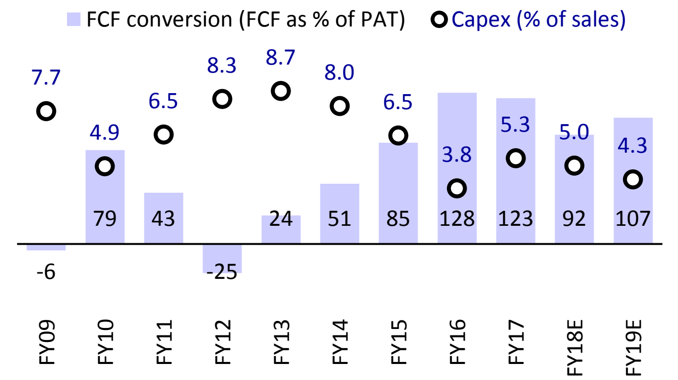

Source: MOSL, Company

**Exhibit 20: Dividend Payout (%) and Cash Balance (INR b)**



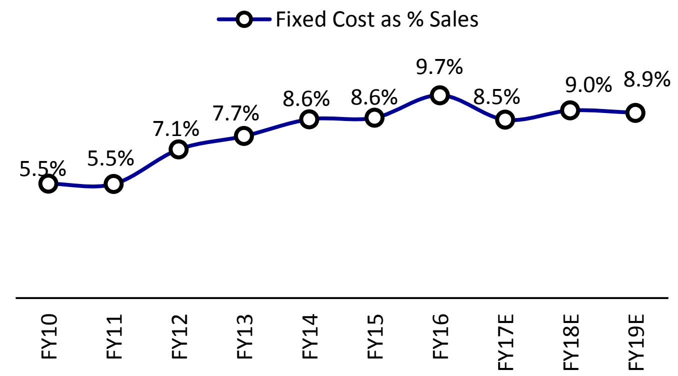

Source: MOSL, Company

**Exhibit 21: Despite significant capex, FCF to remain strong (INR b)**




Source: Company, MOSL

**Exhibit 22: ROE v/s ROIC (%)**




Source: Company, MOSL

**Exhibit 23: Key assumptions | Snapshot of revenue model**

| 000 units | FY13 | FY14 | FY15 | FY16E | FY17E | FY18E | FY19E |
|---|---|---|---|---|---|---|---|
| A1 (M800) | 18 | 17 | 0 | 0 | 1 | 2 | 0 |
| Growth (%) | -23.1 | -5.2 | -100.0 | | | | |
| % of Dom vols | 1.7 | 1.6 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 |
| MPV (Vans) | 111 | 102 | 129 | 143 | 152 | 164 | 172 |
| Growth (%) | -23.3 | -7.6 | 26.3 | 11.2 | 6.0 | 8.0 | 5.0 |
| % of Dom vols | 10.5 | 9.7 | 11.0 | 11.0 | 10.5 | 10.0 | 9.4 |
| A2 (other hatchbacks) | 667 | 672 | 730 | 779 | 832 | 956 | 1,077 |
| Growth (%) | -5.2 | 0.7 | 8.6 | 6.8 | 6.7 | 14.9 | 12.7 |
| % of Dom vols | 63.5 | 63.8 | 62.3 | 59.7 | 57.6 | 58.1 | 58.6 |
| A3 (Dzire, Ciaz) | 176 | 202 | 244 | 288 | 264 | 292 | 332 |
| Growth (%) | 37.6 | 14.4 | 20.9 | 18.3 | -8.4 | 10.5 | 13.8 |
| % of Dom vols | 16.8 | 19.1 | 20.8 | 22.1 | 18.3 | 17.8 | 18.1 |
| Uvs (Ertiga, Compact SUV) | 79 | 61 | 68 | 94 | 196 | 232 | 257 |
| Growth (%) | 1,113.7 | -22.8 | 11.6 | 38.4 | 107.3 | 18.4 | 11.1 |
| % of Dom vols | 7.5 | 5.8 | 5.8 | 7.2 | 13.6 | 14.1 | 14.0 |
| Total Domestic | **1,051** | **1,054** | **1,171** | **1,305** | **1,445** | **1,645** | **1,839** |
| Growth (%) | 4.4 | 0.2 | 11.1 | 11.5 | 10.7 | 13.9 | 11.8 |
| % of Total vols | 89.7 | 91.2 | 90.6 | 91.3 | 92.1 | 92.6 | 93.4 |
| Exports | 120 | 101 | 122 | 124 | 124 | 132 | 131 |
| Growth (%) | -5 | -16 | 20 | 2 | 0 | 6 | 0 |
| % of Total vols | 10 | 9 | 9 | 9 | 8 | 7 | 7 |
| Total Volumes | **1,171** | **1,155** | **1,292** | **1,429** | **1,569** | **1,777** | **1,970** |
| Growth (%) | 3.3 | -1.4 | 11.9 | 10.6 | 9.8 | 13.3 | 10.9 |
| ASP (INR 000/unit) | **372** | **379** | **387** | **403** | **434** | **454** | **476** |
| Growth (%) | 18.5 | 1.9 | 2.0 | 4.1 | 7.7 | 4.7 | 4.8 |
| Net Sales (INR b) | **436** | **438** | **500** | **575** | **680** | **807** | **937** |
| Growth (%) | 22 | 0 | 14 | 15 | 18 | 19 | 16 |

# Financials and Valuations

| Income Statement | | | | | | | | (INR Million) |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018E** | **2019E** |
| **Net Op Income** | **355,872** | **435,879** | **437,918** | **499,706** | **575,381** | **680,348** | **806,639** | **937,231** |
| Change (%) | -3.6 | 22.5 | 0.5 | 14.1 | 15.1 | 18.2 | 18.6 | 16.2 |
| **EBITDA** | **25,130** | **42,296** | **51,871** | **67,129** | **88,844** | **104,710** | **127,860** | **154,454** |
| EBITDA Margins (%) | 7.1 | 9.7 | 11.8 | 13.4 | 15.4 | 15.4 | 15.9 | 16.5 |
| Depreciation | 11,384 | 18,612 | 20,844 | 24,703 | 28,202 | 26,021 | 30,546 | 33,743 |
| **EBIT** | **13,747** | **23,684** | **31,027** | **42,426** | **60,642** | **78,689** | **97,314** | **120,711** |
| EBIT Margins (%) | 3.9 | 5.4 | 7.1 | 8.5 | 10.5 | 11.6 | 12.1 | 12.9 |
| Interest | 552 | 1,898 | 1,759 | 2,060 | 815 | 894 | 850 | 800 |
| Other Income | 8,268 | 8,124 | 7,317 | 8,316 | 14,610 | 22,798 | 24,112 | 27,047 |
| Non-recurring Expense | 0 | 0 | 0 | 0 | 0 | 1,180 | 0 | 0 |
| **PBT** | **21,463** | **29,910** | **36,585** | **48,682** | **74,437** | **99,413** | **120,577** | **146,958** |
| Tax | 5,110 | 5,989 | 8,755 | 11,570 | 20,794 | 26,036 | 31,651 | 36,739 |
| Effective tax Rate (%) | 23.8 | 20.0 | 23.9 | 23.8 | 27.9 | 26.2 | 26.3 | 25.0 |
| **PAT** | **16,353** | **23,921** | **27,830** | **37,112** | **53,643** | **73,377** | **88,925** | **110,218** |
| Change (%) | -28.5 | 46.3 | 16.3 | 33.4 | 44.5 | 36.8 | 21.2 | 23.9 |
| % of Net Sales | 4.7 | 5.6 | 6.5 | 7.6 | 9.5 | 11.0 | 11.2 | 11.9 |
| **Adj. PAT** | **16,353** | **23,921** | **27,830** | **37,112** | **53,643** | **74,248** | **88,925** | **110,218** |
| Change (%) | -29.2 | 46.3 | 16.3 | 33.4 | 44.5 | 38.4 | 19.8 | 23.9 |

| Balance Sheet | | | | | | | | (INR Million) |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018E** | **2019E** |
| Sources of Funds | | | | | | | | |
| Share Capital | 1,445 | 1,510 | 1,510 | 1,510 | 1,510 | 1,510 | 1,510 | 1,510 |
| Reserves | 150,429 | 184,279 | 208,270 | 235,532 | 297,332 | 360,201 | 418,263 | 492,171 |
| **Net Worth** | **151,873** | **185,790** | **209,781** | **237,043** | **298,842** | **361,711** | **419,773** | **493,682** |
| Loans | 11,749 | 14,928 | 16,851 | 5,156 | 774 | 4,836 | 4,836 | 4,836 |
| Deferred Tax Liability | 3,025 | 4,087 | 5,866 | 4,810 | 1,943 | 4,640 | 4,640 | 4,640 |
| **Capital Employed** | **166,647** | **204,805** | **232,498** | **247,009** | **301,559** | **371,187** | **429,249** | **503,158** |
| | | | | | | | | |
| **Application of Funds** | | | | | | | | |
| Gross Fixed Assets | 147,347 | 198,007 | 227,018 | 264,617 | 291,514 | 325,327 | 367,850 | 407,850 |
| Less: Depreciation | 72,140 | 100,015 | 119,114 | 142,024 | 166,414 | 192,435 | 222,981 | 256,724 |
| **Net Fixed Assets** | **75,207** | **97,992** | **107,904** | **122,593** | **125,100** | **132,892** | **144,869** | **151,126** |
| Capital WIP | 9,419 | 19,422 | 26,214 | 18,828 | 10,069 | 12,523 | 10,000 | 10,000 |
| Investments | 61,474 | 70,783 | 101,179 | 128,140 | 199,322 | 282,284 | 282,284 | 282,284 |
| **Curr.Assets, Loans** | **76,922** | **78,683** | **70,061** | **65,932** | **84,909** | **82,234** | **154,249** | **245,640** |
| Inventory | 17,965 | 18,407 | 17,060 | 26,859 | 31,321 | 32,622 | 39,779 | 46,220 |
| Sundry Debtors | 9,376 | 14,237 | 14,137 | 10,698 | 13,222 | 11,992 | 17,680 | 20,542 |
| Cash & Bank Balances | 24,362 | 7,750 | 6,298 | 183 | 391 | 131 | 59,301 | 141,390 |
| Loans & Advances | 21,193 | 23,940 | 28,895 | 25,221 | 33,377 | 31,419 | 31,419 | 31,419 |
| Others | 4,027 | 14,349 | 3,672 | 2,971 | 6,598 | 6,070 | 6,070 | 6,070 |
| **Current Liab. & Prov.** | **56,376** | **62,076** | **72,860** | **88,484** | **117,841** | **138,746** | **162,153** | **185,893** |
| Sundry Creditors | 49,391 | 53,335 | 64,103 | 71,954 | 85,702 | 101,924 | 117,700 | 133,800 |
| Provisions | 6,985 | 8,741 | 8,757 | 16,530 | 32,139 | 36,822 | 44,454 | 52,093 |
| **Net Current Assets** | **20,546** | **16,608** | **-2,800** | **-22,553** | **-32,932** | **-56,512** | **-7,904** | **59,747** |
| **Appl. of Funds** | **166,647** | **204,805** | **232,497** | **247,009** | **301,559** | **371,187** | **429,249** | **503,158** |

# Financials and Valuations

| Ratios | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018E** | **2019E** |
| **Basic (INR)** | | | | | | | | |
| **Adjusted EPS** | **56.6** | **79.2** | **92.1** | **122.9** | **177.6** | **245.8** | **294.4** | **364.9** |
| EPS Growth (%) | (29.2) | 39.9 | 16.3 | 33.4 | 44.5 | 38.4 | 19.8 | 23.9 |
| **Consol EPS** | **58.2** | **81.7** | **94.4** | **126.0** | **182.0** | **248.6** | **300.0** | **370.9** |
| Cash EPS | 96.0 | 143.4 | 163.4 | 207.8 | 275.3 | 334.8 | 401.1 | 482.6 |
| Book Value per Share | 525.7 | 615 | 694 | 785 | 989 | 1,197 | 1,390 | 1,634 |
| DPS | 7.5 | 8.0 | 12.0 | 25.0 | 35.0 | 75.0 | 85.0 | 100.0 |
| Div. payout (%) | 15.4 | 11.7 | 15.2 | 24.5 | 23.7 | 37.1 | 34.7 | 32.9 |
| **Valuation (x)** | | | | | | | | |
| Consol. P/E | 109.5 | 77.9 | 67.5 | 50.5 | 35.0 | 25.6 | 21.2 | 17.2 |
| Cash P/E | 66.4 | 44.4 | 39.0 | 30.7 | 23.1 | 19.0 | 15.9 | 13.2 |
| EV/EBITDA | 70.3 | 44.0 | 35.4 | 26.8 | 19.4 | 15.7 | 12.4 | 9.7 |
| EV/Sales | 5.1 | 4.4 | 4.3 | 3.7 | 3.1 | 2.5 | 2.0 | 1.6 |
| P/BV | 12.1 | 10.4 | 9.2 | 8.1 | 6.4 | 5.3 | 4.6 | 3.9 |
| Dividend Yield (%) | 0.1 | 0.1 | 0.2 | 0.4 | 0.5 | 1.2 | 1.3 | 1.6 |
| FCF Yield (%) | | | | | 3.6 | 4.7 | 4.7 | 6.2 |
| **Profitability Ratios (%)** | | | | | | | | |
| RoIC | 14.1 | 18.3 | 18.8 | 26.5 | 39.6 | 60.9 | 81.4 | 108.3 |
| RoE | 10.8 | 12.9 | 13.3 | 15.7 | 18.0 | 20.3 | 21.2 | 22.3 |
| RoCE | 13.2 | 15.5 | 16.5 | 20.5 | 25.0 | 27.3 | 28.3 | 29.4 |
| **Turnover Ratios** | | | | | | | | |
| Debtors (Days) | 9 | 11 | 11 | 7 | 8 | 6 | 7 | 7 |
| Inventory (Days) | 20 | 17 | 16 | 23 | 23 | 21 | 21 | 22 |
| Creditors (Days) | 64 | 60 | 75 | 75 | 81 | 80 | 79 | 78 |
| Work. Cap. (Days) | -35 | -32 | -48 | -45 | -50 | -53 | -50 | -49 |
| Asset Turnover (x) | 2.1 | 2.1 | 1.8 | 2.0 | 1.9 | 1.8 | 1.9 | 1.8 |
| **Leverage Ratio** | | | | | | | | |
| Debt/Equity (x) | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

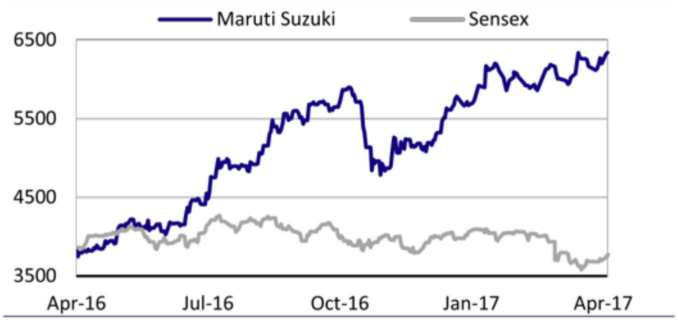
| Cash Flow Statement | | | | | | | | (INR Million) |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018E** | **2019E** |
| OP/(Loss) before Tax | 21,462 | 29,910 | 36,585 | 48,682 | 60,642 | 78,689 | 97,314 | 120,711 |
| Int./Div. Received | -7,003 | -4,470 | -7,636 | -7,228 | 14,610 | 22,798 | 24,112 | 27,047 |
| Depreciation | 11,384 | 18,612 | 20,844 | 24,703 | 28,202 | 26,021 | 30,546 | 33,743 |
| Direct Taxes Paid | -2,509 | -5,333 | -8,320 | -10,407 | -23,661 | -23,339 | -31,651 | -36,739 |
| (Inc)/Dec in WC | 2,265 | 5,123 | 7,562 | 8,356 | 10,588 | 23,320 | 10,562 | 14,437 |
| Other Items | | | | | | | | |
| **CF from Oper.Activity** | **25,599** | **43,842** | **49,035** | **64,106** | **90,380** | **127,489** | **130,884** | **159,199** |
| Extra-ordinary Items | 0 | 0 | 0 | 0 | 0 | -1,180 | 0 | 0 |
| Other Items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **CF after EO Items** | **25,599** | **43,842** | **49,035** | **64,106** | **90,380** | **126,309** | **130,884** | **159,199** |
| (Inc)/Dec in FA | -29,630 | -38,100 | -34,927 | -32,386 | -21,950 | -36,267 | -40,000 | -40,000 |
| **Free Cash Flow** | **-4,032** | **5,742** | **14,108** | **31,720** | **68,430** | **91,222** | **90,884** | **119,199** |
| (Pur)/Sale of Invest. | -1,328 | 2,359 | -14,002 | -12,613 | -71,182 | -82,962 | 0 | 0 |
| **CF from Inv. Activity** | **-30,958** | **-35,741** | **-48,929** | **-44,999** | **-93,132** | **-119,229** | **-40,000** | **-40,000** |
| Change in Networth | 0 | 0 | 0 | 0 | 20,865 | 16,724 | 0 | 0 |
| Inc/(Dec) in Debt | 8,758 | -5,493 | 3,373 | -13,898 | -4,382 | 4,062 | 0 | 0 |
| Interest Paid | -426 | -2,003 | -1,615 | -2,098 | -815 | -894 | -850 | -800 |
| Dividends Paid | -2,167 | -2,167 | -2,417 | -3,625 | -12,709 | -27,233 | -30,864 | -36,310 |
| **CF from Fin. Activity** | **6,165** | **-9,663** | **-659** | **-19,621** | **2,960** | **-7,341** | **-31,714** | **-37,110** |
| **Inc/(Dec) in Cash** | **806** | **-1,562** | **-553** | **-514** | **208** | **-261** | **59,170** | **82,089** |
| Add: Op. Balance | 25,085 | 24,362 | 7,750 | 6,298 | 183 | 391 | 131 | 59,301 |
| **Closing Balance** | **25,891** | **22,799** | **7,197** | **5,784** | **391** | **130** | **59,301** | **141,390** |

# Corporate profile

## Company description

Maruti Suzuki is the largest passenger vehicle manufacturer in India, with 1.2m units. It dominates the domestic passenger vehicle with ~44% market share. It is also emerging as the global export hub of small cars for Suzuki, with world strategic model A-Star exclusively produced in India. It has recently launched Celerio with unique AMT technology. Its two plants are in Haryana - Gurgaon and Manesar.

**Exhibit 1: Sensex rebased**




Source: MOSL/Bloomberg

**Exhibit 2: Shareholding pattern (%)**

| | Mar-17 | Dec-16 | Mar-16 |
|---|---|---|---|
| Promoter | 56.2 | 56.2 | 56.2 |
| DII | 12.3 | 12.4 | 13.1 |
| FII | 24.6 | 24.5 | 24.0 |
| Others | 7.0 | 6.9 | 6.7 |

Note: FII Includes depository receipts Source: Capitaline

**Exhibit 3: Top holders**

| Holder Name | % Holding |
|---|---|
| LIFE INSURANCE CORPORATION OF INDIA | 5.6 |
| HDFC TRUSTEE COMPANY LIMITED-HDFC EQUITY FUND | 1.2 |
| ABU DHABI INVESTMENT AUTHORITY - BEHAVE | 1.1 |
| NA | 0.0 |
| NA | 0.0 |

Source: Capitaline

**Exhibit 4: Top management**

| Name | Designation |
|---|---|
| R C Bhargava | Chairman |
| Kenichi Ayukawa | Managing Director & CEO |
| S Ravi Aiyar | Company Secretary |

Source: Capitaline

**Exhibit 5: Directors**

| Name | Name |
|---|---|
| Kinji Saito | O Suzuki |
| Toshihiro Suzuki | Shigetoshi Torii |
| Amal Ganguli | D S Brar |
| Pallavi Shroff | R P Singh |
| Toshiaki Hasuike | |

*Independent

**Exhibit 6: Auditors**

| Name | Type |
|---|---|
| Deloitte Haskins & Sells LLP | Statutory |
| Price Waterhouse | Statutory |
| R J Goel & Co | Cost Auditor |

Source: Capitaline

**Exhibit 7: MOSL forecast v/s consensus**

| EPS (INR) | MOSL forecast | Consensus forecast | Variation (%) |
|---|---|---|---|
| FY17 | 248.6 | 235.9 | 5.4 |
| FY18 | 300.0 | 270.7 | 10.8 |
| FY19 | 370.9 | 320.7 | 15.6 |

Source: Bloomberg

# N O T E S

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In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Varun Kumar
Varun.kumar@motilaloswal.com
Contact : (+65) 68189232
Office Address:21 (Suite 31),16 Collyer Quay,Singapore 04931

**Motilal Oswal Securities Ltd**
Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025
Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com