

# Stock Update

## Market leader poised for strong earnings growth

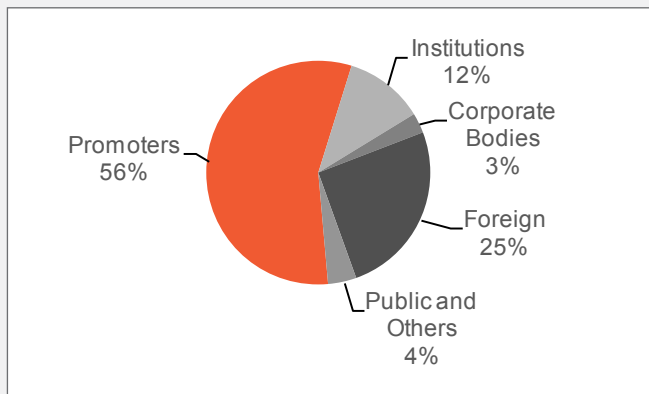
### Maruti Suzuki

Reco: Buy | CMP: Rs8,778

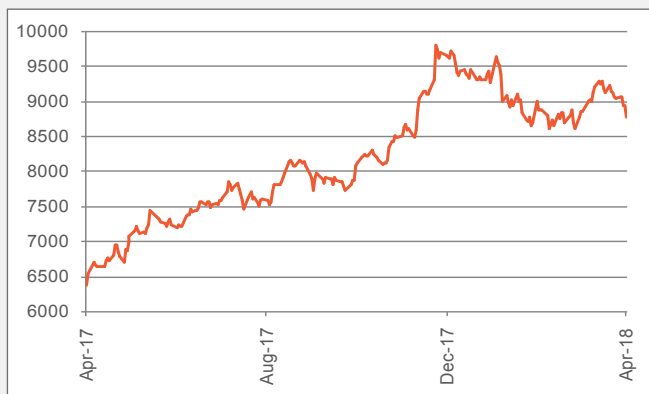
#### Company details

Price target:	Rs11,085
Market cap:	Rs265,164 cr
52-week high/low:	Rs10,000/6,342
NSE volume: (No of shares)	5.07 lakh
BSE code:	532500
NSE code:	MARUTI
Sharekhan code:	MARUTI
Free float: (No of shares)	13.2 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	2.1	-3.6	10.9	41.0
Relative to Sensex	-2.8	0.0	5.5	20.9

#### Key points

- Maruti Suzuki Q4FY2018 in-line operating performance:** Maruti Suzuki Ltd (MSIL) reported an in-line operating performance for the quarter. The topline at Rs 21,166 cr is up 15% y-o-y driven by a 11% y-o-y volume growth on account of strong demand for its recent launches. The realizations per vehicle is up 3% y-o-y attributable to a favorable product mix and price hikes taken by the company. The operating margins for quarter at 14.2% expanded 29 BPS y-o-y coming slightly lower than our expectations of 14.7%. Adverse forex movements, higher launch expenses and employee costs led to a slight miss. EBITDA at Rs 3,015 cr is up 18% y-o-y and is broadly in line with our estimates of Rs 3,057 cr. During the quarter, the company incurred one off interest expenses of Rs 251 cr on the back of higher compensation to farmers for Manesar land as per court orders. Also higher tax rate of 28.6% (25% for Q4FY2017) impacted earnings. Consequently, the PAT at Rs 1,882 cr is up 10% (slower than the EBITDA growth of 18%) and marginally below our estimates of Rs 1,968 Cr
- Gujarat plant to ramp up; robust orderbook and a strong product launch pipeline to result in MSIL continuing to outpace the industry:** MSIL's recent launches – upgraded Swift and Dzire have received an overwhelming response from its customers, which is reflected in waiting period of 8-14 weeks. In addition to this, the earlier models Baleno and Brezza continue to command a waiting period of 15-16 weeks. As per MSIL the bookings as at FY2018 end stood at 110,000 units. On the basis the strong response for the launches, MSIL has gained ~ 2% market share in the passenger vehicle industry during FY2018. Further, MSIL has lined up 4 new products to be launched in the next 12-18 months which would boost the volumes. These include the refreshes of the Ciaz, Ertiga and a new version of the Wagon R (including a seven seater variant). Further, the company is also ramping up its capacity at the Gujarat Plant and plans to produce 250,000 units in FY2019 as against 154,000 achieved in FY2018. We expect MSIL to continue outpacing industry growth and clock 12% volume CAGR over FY2018-2020 as against expected industry growth of 8-9%.

- ◆ **Approval of new royalty structure to lead to Reduced Royalty payments; lower discounts to further aid margin expansion:** MSIL has reached an agreement with its parent wherein the royalty on all new models starting with Ignis (Ignis was launched in January 2017) would be INR denominated and due credit for R&D work carried out by MSIL would be recognised. This would result in lower royalty payout by MSIL. MSIL royalty payments for FY2018 were down to 5.4% of sales as compared to 5.8% in FY2017, partially reflecting the benefits of the revised royalty structure. Also with new launches, the product mix is expected to improve which would reduce the discounts further. We expect MSIL margins to improve by ~80 BPS over the next two years.
- ◆ **Outlook- To fortify its leadership position further:** With, MSIL bagging numero uno position

in utility vehicles in FY2018, the company has achieved the unique feat of gaining leadership across all three categories of passenger vehicle segments viz passenger cars, utility vehicles and vans in FY2018. MSIL increased its passenger vehicle share from 47.3% in FY2017 to 50% in FY2018. With a strong order backlog and a robust launch pipeline, MSIL will further fortify its leadership position. Maruti Suzuki is amongst our top picks in the automotive space.

- ◆ **Valuation- Maintain Buy with an unchanged PT of Rs 11,085:** MSIL's revenues and earnings are expected to grow by 16% and 26% CAGR respectively over FY2018-2020 period. We have fine tuned our earnings estimates for both FY2019 and FY2020. We maintain our Buy recommendation on the stock with an unchanged PT of Rs 11,085.

#### Results

Particulars	Rs cr				
	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Revenues	21,165.6	18,333.4	15.4	19,283.2	9.8
EBIDTA	3,015.0	2,559.5	17.8	3,037.8	-0.8
EBIDTA Margins (%)	14.2	14.0	29BPS	15.8	-151BPS
Depreciation	702.5	701.0	0.2	689.0	2.0
Interest	273.1	22.6	1108.4	26.3	938.4
Other Income	595.0	449.1	32.5	244.9	143.0
PBT	2,634.4	2,285.0	15.3	2,567.4	2.6
Tax	752.3	574.5	30.9	768.4	-2.1
Adjusted PAT	1,882.1	1,710.5	10.0	1,799.0	4.6
EPS	62.3	56.6		59.6	

#### Valuations

Particulars	Rs cr				
	FY16	FY17	FY18	FY19E	FY20E
Net sales	57,746	68,035	79,763	92,421	106,606
Growth (%)	15.6	17.8	17.2	15.9	15.3
EBITDA	8,979	10,352	12,062	14,363	16,998
EBIDTA %	15.5	15.2	15.1	15.5	15.9
PAT	4,571	7,350	7,722	10,113	12,282
Growth (%)	23.2	60.8	5.1	31.0	21.5
FD EPS (INR)	151.3	243.3	255.6	334.8	406.6
P/E (x)	58.0	36.1	34.3	26.2	21.6
P/B (x)	8.9	7.3	6.3	5.4	4.5
RoE (%)	18.1	21.1	18.3	20.4	20.9
RoCE (%)	24.3	26.3	26.0	27.9	28.7
EV/Sales(x)	4.6	3.9	2.9	2.5	2.0
EV/EBITDA (x)	29.7	25.5	19.4	15.8	12.9

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