

# Stock Update

On a strong footing

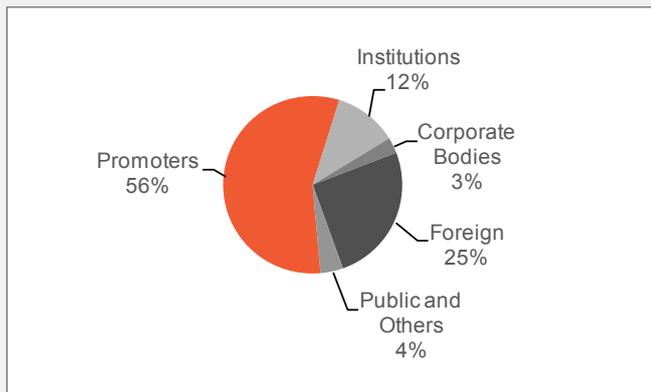
## Maruti Suzuki

Reco: Buy | CMP: Rs8,870

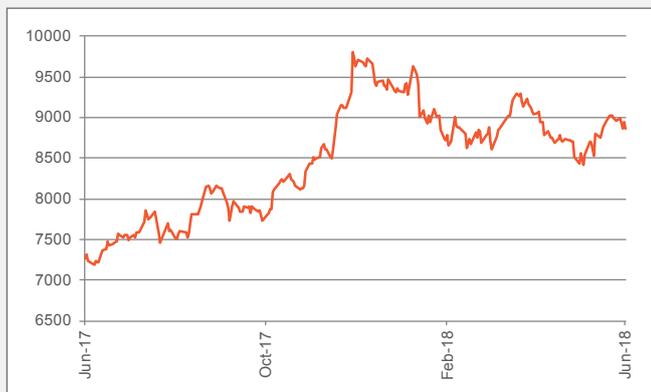
### Company details

Price target:	Rs10,500
Market cap:	Rs267,948 cr
52-week high/low:	Rs10,000/7,155
NSE volume: (No of shares)	5.04 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	5.1	1.7	-8.1	25.4
Relative to Sensex	2.7	-6.0	-13.1	9.0

### Key points

- ♦ **JPY appreciation to raise costs for MSIL:** Japanese Yen (JPY) has been appreciating against the INR recently. JPY has appreciated by about 7% against the INR in the past six months. Maruti Suzuki India Limited (MSIL) imports raw materials (majorly electronic related) from vendors in Japan. Imported raw material accounts for about 10% of MSIL topline. Further, MSIL incurs royalty expenses payable to its parent in JPY terms. As per the agreement with the parent, royalty on all models introduced before Ignis is JPY denominated. Most models of MSIL, which is 60-65% of volumes (Alto, Wagon-R, Celerio, Ertiga, Eeco, Ciaz and Omni), come under JPY-denominated royalty structure. Royalty-related payments of MSIL, which are JPY denominated, form 3-3.5% of the turnover. Overall, MSIL JPY exposure forms 13-14% of the topline and JPY appreciation against INR will increase input costs for MSIL. While MSIL is taking value engineering and cost-control initiatives, it has refrained from taking price hikes recently (last price hike was taken in January 2018), which would marginally impact margins in our view.
- ♦ **Strong order backlog coupled with robust product pipeline to boost growth; Gujarat plant to reach Phase 1 full capacity of 7.5 lakh units by the beginning of 2020:** Recent launches of MSIL continue to have strong demand with about 40% of the portfolio having waiting period of 5 to 14 weeks. As per our channel checks, Vitara Brezza SUV has a waiting period of 14 weeks, while refreshed S-Cross has a waiting period of about 10 weeks. Similarly, Dzire has a waiting period of about six weeks, while Baleno and Swift have waiting periods of about five weeks. Moreover, MSIL has a robust new product launch pipeline, wherein it reportedly plans to launch refreshed Ertiga and Ciaz with a new bigger 1.5 litre petrol engine. Moreover, it aims to launch refurbished Wagon R. MSIL is ahead of the industry in terms of new launches/upgrades, which help to keep the portfolio product cycle young, resulting in continued strong demand for its products. Ramp-up of Gujarat plant is on track with the second line having capacity of 2.5 lakh units coming on stream in the beginning of 2019. With the third plant having capacity of 2.5 lakh units being operational by the beginning of 2020, MSIL will reach full capacity of 7.5 lakh units from Phase 1 in Gujarat.

- ♦ **Outlook - Market leader to strengthen further; Recent management guidance of long-term growth exudes confidence; Continues to remain the preferred pick:** MSIL will continue to outpace industry growth, led by the success of recent launches and a strong new launch pipeline. MSIL has guided to reach sales of 5 million units by 2030 compared to 1.77 million in FY2018, which indicates industry-leading strong 9% CAGR over the next decade. MSIL continues to remain the preferred pick in the automotive space.
- ♦ **Valuation - Marginally lower estimates on JPY appreciation; Maintain Buy with a revised PT of Rs. 10,500:** In view of the recent JPY appreciation and its impact on profitability, we have trimmed our OPM estimates by 50 BPS for FY2019 and FY2020. Consequently, we have lowered our earnings estimates by 4% each for FY2019 and FY2020. We retain Buy rating on the stock with a revised PT of Rs. 10,500 (earlier PT of Rs. 11,085).

## 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	13,873	16,369
EBIDTA %	15.5	15.2	15.1	15.0	15.4
PAT	4,571	7,350	7,722	9,696	11,752
Growth (%)	23.2	60.8	5.1	25.6	21.2
FD EPS (INR)	151.3	243.3	255.6	321.0	389.0
P/E (x)	58.6	36.5	34.7	27.6	22.8
P/B (x)	9.0	7.4	6.4	5.4	4.6
RoE (%)	18.1	21.1	18.3	19.7	20.3
RoCE (%)	24.3	26.3	26.0	27.2	28.0
EV/Sales(x)	4.6	3.9	3.0	2.5	2.1
EV/EBITDA (x)	30.0	25.7	19.6	16.6	13.6

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