

Stock Update

Earnings slowdown to persist in near term; retain Hold

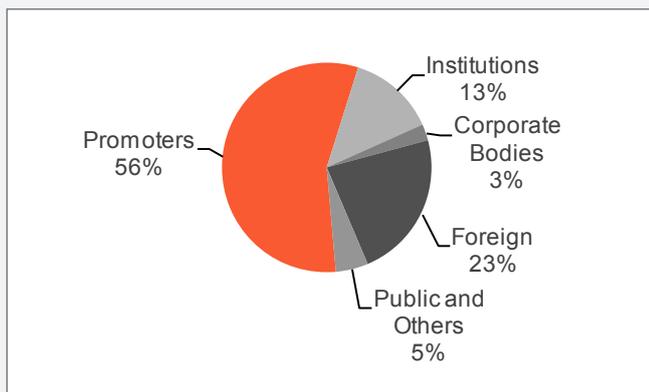
Maruti Suzuki

Reco: Hold | CMP: Rs6,833

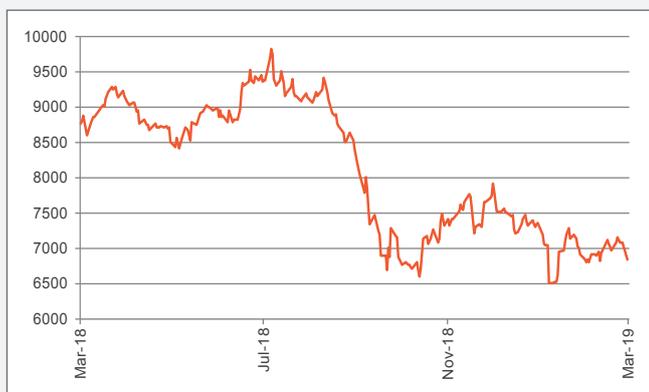
Company details

Price target:	Rs6,950
Market cap:	Rs206,398 cr
52-week high/low:	Rs9,923/6,324
NSE volume: (No of shares)	8.53 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	1.0	-11.1	-17.7	-19.7
Relative to Sensex	-6.0	-15.3	-19.8	-30.9

Key points

- PV industry expected to remain under pressure in near term; likely to impact MSIL earnings; risk of likely downgrades:** The passenger vehicle industry has witnessed a prolonged slowdown with the volumes remaining flattish for the past five to six months. A liquidity squeeze on back of NBFC issues and hike in insurance costs have increased the cost of ownership since September 2018 thereby impacting the demand. In order to push sales, PV OEM's resorted to aggressive discounting. Sales momentum did not pick up despite higher discounting resulting in higher inventory (The current inventory of PV players stands at 50-60 days as against a norm of 30 days). With high inventory levels, and weak consumer sentiment due to slowing economic growth, the industry is expected to remain under pressure for the next two quarters. Given the weak demand scenario, MSIL is continuing to offer discounts in February and March 2019 (not a usual practice). Also to compensate dealers for increasing costs and higher inventory, MSIL has enhanced the dealer margin on best-selling models such as Alto, Dzire and Swift. Moreover, cost increases on account of upcoming safety and crash regulations (likely to increase PV prices by 3-4%) and increased competition in PV industry from both domestic and foreign players would enhance cost pressures thereby impacting the margins. Given the subdued demand scenario and margin pressures, MSIL is exposed to the risk of likely earnings downgrades.
- Outlook- Earnings to remain in negative territory for next two quarters; continue to advise investors to refrain from taking fresh position in the stock:** The trend of earnings decline is expected to continue for the next two quarters. Subdued volumes coupled with margin pressures on account of higher discounts, increased dealer margins and increased competitive intensity would continue to impact earnings. We had downgraded MSIL post Q3 FY2019 earnings (refer our note dated 25th January 2019) and had advised investors not to add any fresh position in the counter. We continue to advise investors to refrain from adding any fresh position in stock.
- Valuations- Cut estimates; retain Hold rating:** We have reduced our FY2020 and FY2021 estimates by 7% each to factor the continued earnings pressures. We retain Hold rating on the stock with an unchanged PT of Rs 6,950.

Valuations					Rs cr
Particulars	FY17	FY18	FY19E	FY20E	FY21E
Net sales	68,035	79,763	85,905.8	92,709.5	103,955.7
Growth (%)	17.8	17.2	7.7	7.9	12.1
EBITDA	10,352	12,062	11,222	10,885	12,305
EBIDTA %	15.2	15.1	13.1	11.7	11.8
PAT	7,350	7,722	7,459.1	7,465.3	8,676.4
Growth (%)	60.8	5.1	-3.4	0.1	16.2
FD EPS (INR)	243.3	255.6	246.9	247.1	287.2
P/E (x)	28.1	26.7	27.7	27.6	23.8
P/B (x)	5.7	4.9	4.4	3.9	3.5
RoE (%)	20.2	18.5	15.8	14.1	14.6
RoCE (%)	25.0	24.8	21.6	19.5	20.2
EV/Sales(x)	3.0	2.6	2.0	1.8	1.5
EV/EBITDA (x)	19.8	17.0	15.2	15.3	13.0

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