

Stock Update

Headwinds to sustain; Retain Hold

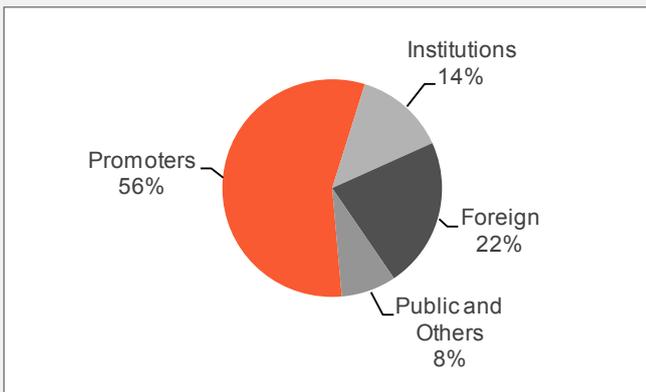
Maruti Suzuki

Reco: Hold | CMP: Rs6,903

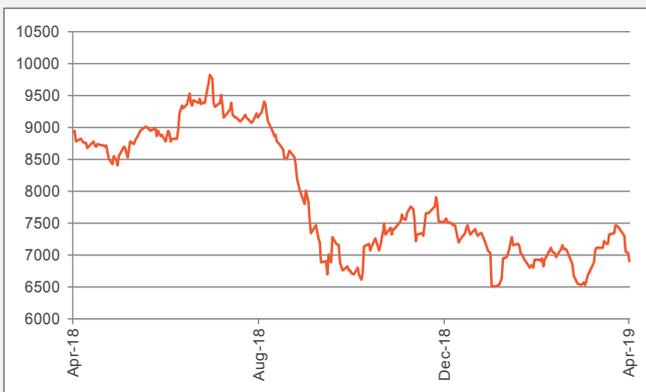
Company details

Price target:	Rs7,150
Market cap:	Rs208,524 cr
52-week high/low:	Rs9,923/6,324
NSE volume: (No of shares)	8.23 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	7.1	-0.3	3.7	-21.9
Relative to Sensex	4.6	-7.8	-10.0	-31.6

Key points

- Q4FY2019 operating performance misses expectation; PAT in-line with expectations aided by higher other income and lower tax:** Maruti Suzuki India Limited's (MSIL) Q4FY2019 results are weaker than our as well as consensus estimates on the operating front as the company posted lower-than-expected margins. The top line at Rs. 21,459 crore was almost flat (up 1.4% y-o-y for the quarter) primarily driven by a 1% increase in realisation on account of price hikes taken by the company. Volumes for the quarter declined marginally by 0.7% y-o-y. Operating margin at 10.5% declined sharply by 370 BPS y-o-y and was lower than our estimates of 12.1% (consensus margin estimates were 12.5-13%). Increased commodity prices, adverse currency movement and higher discounting (average discounts increased by 9% y-o-y to Rs. 15,125 per vehicle) impacted margins. Consequently, EBITDA for the quarter at Rs. 2,263 crore dropped sharply by 25% y-o-y and was below than the estimated Rs. 2,568 crore. Other income for the quarter at Rs. 868 crore increased sharply by 46% y-o-y. Moreover, tax rate for the quarter at 22% (tax rate was lower due to tax reversals availed) was lower as compared to 29% for Q4FY2018. This resulted in adjusted PAT coming in at Rs. 1,796 crore and broadly in-line with our estimate of Rs. 1,764 crore.
- PV industry unlikely to pick up significantly in FY2020; Maruti cuts volume guidance:** The passenger vehicle industry ended FY2019 on a weak note with volumes growing marginally by 3%. Growth turned negative in H2FY2019 (H2FY2019 volumes declined by 2%). Weak consumer sentiment driven by slowing economic growth, NBFC liquidity crunch and increased mandatory insurance costs dampened demand. Due to uncertainty before the general elections, Q1FY2020 volumes are also expected to remain under pressure. The auto industry's body, SIAM, expects the PV industry's growth to remain subdued and has guided for 3-5% growth in FY2020, which is similar to 3% growth reported in FY2019. Maruti has also cut its sales guidance to 4-8% for FY2020 as against double-digit growth projection earlier.
- Subdued volume growth, increased input costs due to regulatory changes to maintain margin pressures; Expect margins to contract in FY2020:** Maruti is expected to report subdued volumes in FY2020 given weak consumer sentiment in the PV industry. Operating leverage due

to subdued volumes is likely to exert margin pressure. Further, FY2020 is likely to witness cost increases on account of regulatory changes. Mandatory safety features such as airbags, reverse parking sensors and ABS are likely to increase costs. Moreover, the industry is likely to see introduction of BS6 emission norm-compliant vehicles from Q3FY2020. These regulatory changes are expected to increase costs by 6-7%. Rising cost pressures in wake of subdued industry growth are likely to put pressure on margins. We have factored 90 BPS y-o-y margin contraction for Maruti in FY2020.

- ♦ **Outlook - Muted earnings growth expected in FY2020:** We expect Maruti's FY2020 volume growth to be muted at 4% (our volume estimate is at the lower end of management's guidance).

Further, margin pressures on account of operating deleverage and cost increases would lead to margin contraction in FY2020. We expect Maruti to report flat earnings growth in FY2020.

- ♦ **Valuations- Earnings headwind to persist; retain Hold with revised PT of Rs 7,150:** Maruti's Q4FY2019 results were lower than estimates on the operating front. With muted volume growth and margin pressures, we expect operational headwinds to sustain in FY2020. We have been highlighting challenges for Maruti (had downgraded stock to Hold refer our note dated Jan 25, 2019) and retain our cautious view. We have fine tuned our earnings estimates for both FY2020 and FY2021. We retain Hold rating on the stock with a revised PT of Rs 7,150.

Result

Particulars	Rs cr				
	Q4FY2019	Q4FY2018	YoY (%)	Q3FY2019	QoQ (%)
Revenues	21,459.4	21,165.6	1.4	19,668.3	9.1
EBIDTA	2,263.4	3,015.0	-24.9	1,931.1	17.2
EBIDTA Margins (%)	10.5	14.2	(370) bps	9.8	70 bps
Depreciation	810.2	702.5	15.3	767.7	5.5
Interest	8.8	273.1	-96.8	20.6	-57.3
Other Income	867.7	595.0	45.8	917.3	-5.4
PBT	2,312.1	2,634.4	-12.2	2,060.1	12.2
Tax	516.5	752.3	-31.3	570.8	-9.5
Adjusted PAT	1,795.6	1,882.1	-4.6	1,489.3	20.6
EPS	59.4	62.3	-4.6	49.3	20.6

Valuation

Particulars	Rs cr				
	FY17	FY18	FY19E	FY20E	FY21E
Net sales	68,035	79,763	86,020.3	94,132.2	107,202.0
Growth (%)	17.8	17.2	7.8	9.4	13.9
EBITDA	10,352	12,062	10,999	11,197	12,911
EBITDA %	15.2	15.1	12.8	11.9	12.0
PAT	7,350	7,722	7,500.6	7,598.6	8,978.4
Growth (%)	60.8	5.1	-2.9	1.3	18.2
FD EPS (Rs.)	243.3	255.6	248.3	251.5	297.2
P/E (x)	28.4	27.0	27.8	27.4	23.2
P/B (x)	5.7	5.0	4.4	3.9	3.5
RoE (%)	20.2	18.5	15.9	14.3	15.0
RoCE (%)	25.0	24.8	21.2	19.4	20.5
EV/Sales(x)	3.0	2.6	2.0	1.8	1.5
EV/EBITDA (x)	20.0	17.2	15.7	15.0	12.5

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