

# Maruti Suzuki | MSIL IN

## Operationally good quarter

MSIL reported an operationally strong 4QFY16 with topline at ₹153bn (4% above JMFe, +12.3%YoY) led by improving sales mix and lower discounts. Although EBITDA at ₹23.5bn was c.4.4% above JMFe driven by beat on topline, adj. PAT at ₹11.34bn was 15% below JMFe due to higher tax incidence and lower other income. In FY17, management expects double-digit volume growth driven by new model/variant launches. As per management, commodity prices have bottomed out and may likely rise going forward, even as adverse yen movement would impact margin. Despite an uncertain demand environment we expect MSIL to hold on to steady volume growth and market leadership on the back of a) strong network, b) wide product range, especially gasoline, c) new product launches, and d) entry into new product categories. While we stay positive on MSIL's long term growth prospects, we reiterate cautious view on the stock given i) FY17/18 earnings downgrade risk, ii) rising commodity costs iii) unfavorable yen movements iv) heightened competitive landscape and v) rich valuations (20x FY17E PER). Maintain HOLD with a target price of ₹4,175. Sharp ₹ depreciation and better-than-estimated volume growth are key risks to our view.

- Operationally healthy 4QFY16:** MSIL reported strong topline at ₹153 bn (+12.3% YoY, 4% above JMFe), primarily led by improving sales mix and lower discounts on new models. EBITDA for the quarter came in at ₹23.5bn (+8.6% YoY), 4.4% above JMFe driven by revenue beat. EBITDA margin at 15.4% was largely in-line with JMFe. During the call management highlighted that, while RM costs declined 190 bps YoY led by cost reduction initiatives and commodity benefits, they were largely offset by higher ad spend and 100 bps impact of yen restatement. Despite beat on EBITDA, PAT for the quarter came in c.15% below JMFe at ₹11.34bn on the back of lower other income and higher year-end tax incidence (32.9% vs. JMFe 26%).The company declared final dividend of ₹35/sh in-line with JMFe.
- Challenges for FY17:** During the post-earnings conference call, management highlighted rise in commodity prices and unfavorable ₹ movements as key challenges for FY17. As per the management, FY16 saw the entire benefit of benign commodity prices and they are already beginning to witness an uptick in input costs. Besides, RM imports (direct + vendor) at c.17% of sales and royalty at 6% of sales are yen denominated. Despite efforts to increase localization, the management does not expect imports to reduce meaningfully in the near-term. ₹ appreciated c.12% against INR through FY16 and the full impact of yen movement in 4QFY16 would adversely impact margins in 1Q/2QFY17.

### Exhibit 1: Financial Summary

(₹ mn)

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net sales	487,594	565,174	663,039	784,613	903,298
Sales growth (%)	13.5	15.9	17.3	18.3	15.1
EBITDA	62,470	84,148	96,556	108,899	122,539
EBITDA (%)	12.7	14.8	14.5	13.8	13.5
Adjusted net profit	37,812	45,718	59,561	68,351	78,333
EPS (₹)	125.2	151.4	197.2	226.3	259.4
EPS growth (%)	40.5	20.9	30.3	14.8	14.6
ROIC (%)	15.9	17.2	19.2	19.3	20.8
ROE (%)	16.9	18.0	20.4	20.2	20.1
PE (x)	30.9	25.6	19.6	17.1	14.9
Price/Book value (x)	4.9	4.3	3.7	3.2	2.8
EV/EBITDA (x)	16.7	11.8	10.3	8.8	7.5

Source: Company data, JM Financial. Note: Valuations as of 26/04/2016

JM Financial Institutional Securities Limited

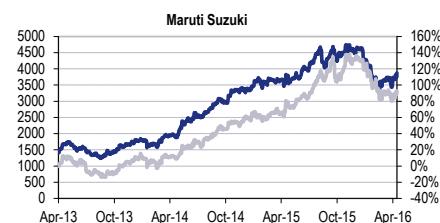
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### Key Data

Market cap (bn)	₹ 1169.5 / US\$ 17.6
Shares in issue (mn)	302.0
Diluted share (mn)	302.0
3-mon avg daily val (mn)	₹ 4033.1/US\$ 60.6
52-week range	₹ 4790.0/3193.3
Sensex/Nifty	26,007/7,963
₹/US\$	66.5

### Daily Performance



%	1M	3M	12M
Absolute	3.6	-5.1	9.3
Relative*	1.0	-11.4	14.5

\* To the BSE Sensex

### Shareholding Pattern (%)

	Dec-15	Dec-14
Promoters	56.2	56.2
FII	25.2	22.0
DII	12.4	14.9
Public / others	6.2	6.9

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher, Reuters, S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Growth Outlook for FY17:** During the conference call, management indicated that they expect MSIL to achieve double-digit volume growth in FY17 led by new launches and improving macro. MSIL has fully utilized its effective capacity of c.1.4mn vehicles at Gurgaon and Manesar plants. Although, the new plant in Gujarat would likely come into operation by Jan'17 and contribute c.10k units to volumes in FY17, the company will have to improve operational efficiencies in its existing plants to increase production and achieve healthy volume growth in FY17. While rural markets are expected to remain sluggish and pick-up only in 2HFY17 on good monsoons, urban markets would be the key growth driver. Management also highlighted that the company has strengthened its network adding c.200 dealers and c.20k villages in FY16 and expects the penetration (rural+urban) to increase in FY17. While avg. realisation went up and discounts fell in 4QFY16 on the back of new launches, management expects realisation to remain healthy in FY17.
- **Reiterate HOLD with a target price of ₹ 4175:** While we are positive on MSIL's long term business potential due to its deep understanding of Indian consumers and strong launch pipeline, we believe the earnings momentum would slow hereon, including earnings downgrade risks. We reiterate our cautious view on the stock because of i) FY17/18 earnings downgrade risk, ii) possible rise in commodity costs iii) unfavorable yen movements iv) uncertain demand environment, v) heightened competitive landscape and vi) rich valuations (20x FY17E PER). Maintain HOLD with a target price of ₹ 4,175.

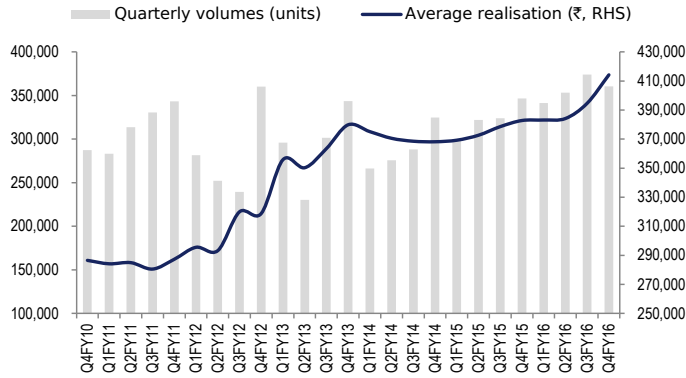
**Exhibit 2. Quarterly financial results**

	(₹ mn)						
	4QFY16	4QFY15	% YoY	3QFY16	% QoQ	4QFY16E	% A/E
<b>Sales</b>	149,295	132,726	12.5	147,677	1.1	143,440	4.1
Other Operating Income	3,762	3,523	6.8	3,142	19.7	3,500	7.5
Expenditure	129,557	114,606	13.0	129,118	0.3	124,420	4.1
EBITDA	23,500	21,643	8.6	21,701	8.3	22,520	4.4
<b>EBITDA Margin (%)</b>	15.4	15.9	-53bps	14.4	96bps	15.3	3bps
Other Income	1,212	3,199	-62.1	315	284.8	3,100	-60.9
Interest	203	1,027	-80.2	244	-16.8	450	-54.9
Depreciation	7,608	6,600	15.3	7,221	5.4	7,200	5.7
PBT	16,901	17,215	-1.8	14,551	16.2	17,970	-5.9
Tax	5,565	4,373	27.3	4,358	27.7	4,672	19.1
Tax rate (%)	32.9	25.4	7.5	29.9	3.0	26.0	6.9
<b>PAT (Adjusted)</b>	11,336	12,842	-11.7	10,193	11.2	13,298	-14.8
PAT Margin (%)	7.6	9.7	-208bps	6.9	69bps	9.3	-168bps

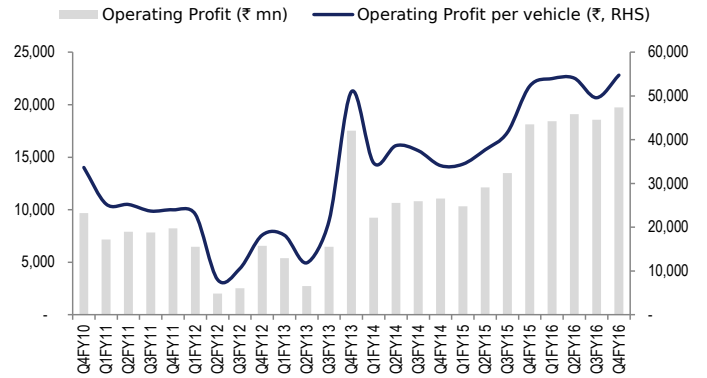
Source: Company, JM Financial.

**Exhibit 3. Quarterly trends**

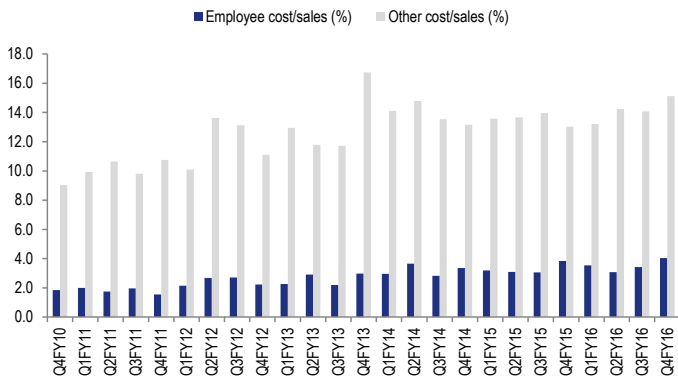
**Volume and realization trend**



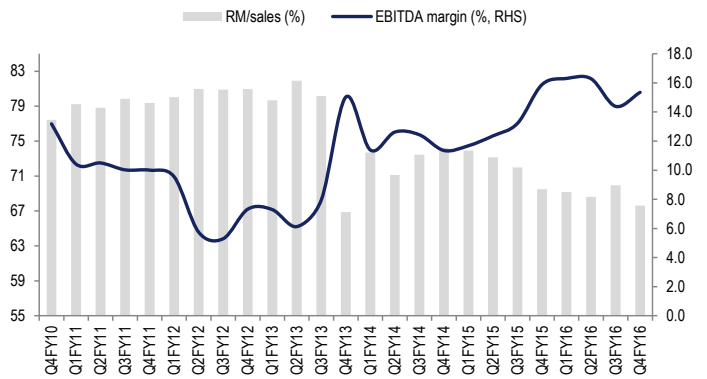
**Operating profit trend**



**Cost trend - Employee/other costs**



**RM cost and EBITDA margin trend**



Source: Company, JM Financial

## Company background

- Maruti Suzuki, a subsidiary of Suzuki Motor Corporation of Japan, is India's largest passenger car company, accounting for over 45% of the domestic car market. The company offers 14 brands ranging from ₹260,000 to ₹1,700,000 spanning across the car, UV and MPV segments. Alto and Swift (Swift compact, Swift DZire and Ritz) are the most popular models, and dominate the market in their respective segments. It has been ranked the highest in JD Power Customer Satisfaction Index for the last ten consecutive years.

It has three manufacturing facilities in Gurgaon and Manesar with installed capacity of c.1.55mn units. It has the most extensive distribution network among all PV companies in India.

Revenue Variables	(Units )					
Y/E March	FY14A	FY15A	FY16A	FY17E	FY18E	FY19E
Domestic (units)	1,053,689	1,170,702	1,305,351	1,468,738	1,670,621	1,821,729
Exports (units)	101,352	121,713	123,897	134,000	151,000	167,000
<b>Total Sales (units)</b>	<b>1,155,041</b>	<b>1,292,415</b>	<b>1,429,248</b>	<b>1,602,738</b>	<b>1,821,621</b>	<b>1,988,729</b>
Realisations (₹)	374,993	380,316	395,435	413,691	430,722	454,209

Source: Company, JM Financial

## Investment Rationale

- Compared to past few years, we believe MSIL's competitive positioning is far stronger today, driven by new product launches (new segments), expanding diesel/CNG portfolio, extensive network and moderate competition. This, in our view, will help MSIL maintain its market leadership without compromising much on profitability.
- PV demand in Indian market has been under pressure over the past several quarters due to macro factors like slowing economy (weak sentiments), rising fuel prices. While demand remains weak, we expect passenger car demand to recover in FY16E. Given the wide product portfolio and extensive dealer network, we expect MSIL to be one of the prime beneficiaries of recovery in domestic passenger car demand.
- Recent launches from MSIL like Celerio and Ciaz have been well received in the market. Robust sales of Ertiga/Swift/Dzire will support revenue growth, and lead to significant improvement in sales mix.
- We expect MSIL's EBIDTA margin to remain stable going forward primarily led by: a) healthy volume growth, b) improvement in sales mix, and c) localisation.

## Key Risks

- a) Sharp drop in discounts, b) slide in commodity prices, c) sharp ₹ depreciation and d) better-than-estimated volume growth.

## Financial Tables

Profit & Loss						(₹ mn)
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E	
<b>Net sales (Net of excise)</b>	<b>487,594</b>	<b>565,174</b>	<b>663,039</b>	<b>784,613</b>	<b>903,298</b>	
Growth (%)	13.5	15.9	17.3	18.3	15.1	
Other operational income	3,933	3,800	4,485	4,934	5,526	
Raw material (or COGS)	351,951	389,737	464,640	554,826	644,923	
Personnel cost	16,065	19,886	22,212	25,892	28,906	
Other expenses (or SG&A)	61,040	75,202	84,117	99,929	112,457	
<b>EBITDA</b>	<b>62,470</b>	<b>84,148</b>	<b>96,556</b>	<b>108,899</b>	<b>122,539</b>	
EBITDA (%)	12.7	14.8	14.5	13.8	13.5	
Growth (%)	25.2	34.7	14.7	12.8	12.5	
Other non-op. income	10,726	7,164	8,433	10,096	11,385	
Depreciation and amort.	24,703	28,239	29,335	32,519	35,206	
EBIT	48,493	63,073	75,653	86,476	98,718	
Add: Net interest income	890	2,282	2,717	3,460	4,352	
Pre tax profit	49,382	65,355	78,370	89,936	103,070	
Taxes	11,570	19,637	18,809	21,585	24,737	
Add: Extraordinary items	-700	0	0	0	0	
Less: Minority interest	0	0	0	0	0	
Reported net profit	37,112	45,718	59,561	68,351	78,333	
<b>Adjusted net profit</b>	<b>37,812</b>	<b>45,718</b>	<b>59,561</b>	<b>68,351</b>	<b>78,333</b>	
Margin (%)	7.7	8.0	8.9	8.7	8.6	
Diluted share cap. (mn)	302	302	302	302	302	
<b>Diluted EPS (₹)</b>	<b>125.2</b>	<b>151.4</b>	<b>197.2</b>	<b>226.3</b>	<b>259.4</b>	
Growth (%)	40.5	20.9	30.3	14.8	14.6	
Total Dividend + Tax	8,796	12,314	15,832	19,351	22,869	

Source: Company, JM Financial

Balance Sheet						(₹ mn)
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E	
Share capital	1,510	1,510	1,510	1,510	1,510	
Other capital	0	0	0	0	0	
Reserves and surplus	235,195	268,565	312,294	361,294	416,758	
Networth	236,705	270,075	313,804	362,804	418,268	
Total loans	5,493	0	0	0	0	
Minority interest	0	0	0	0	0	
<b>Sources of funds</b>	<b>242,198</b>	<b>270,075</b>	<b>313,804</b>	<b>362,804</b>	<b>418,268</b>	
Intangible assets	0	0	0	0	0	
Fixed assets	271,232	294,794	329,365	362,539	398,666	
Less: Deprn. and amort.	143,379	171,618	200,953	233,473	268,678	
Net block	127,853	123,176	128,412	129,067	129,988	
Capital WIP	13,562	14,571	13,175	18,127	11,960	
Investments	128,140	177,857	187,857	197,857	207,857	
Def tax assets/- liability	-5,866	-4,741	-4,741	-4,741	-4,741	
Current assets	65,523	76,356	98,571	149,101	217,217	
Inventories	26,150	31,321	43,597	51,591	61,870	
Sundry debtors	10,698	12,986	21,799	25,795	37,122	
Cash & bank balances	198	395	-16,348	13,059	45,999	
Other current assets	3,256	2,592	3,110	3,732	4,479	
Loans & advances	25,221	29,062	46,413	54,923	67,747	
Current liabilities & prov.	87,014	117,144	109,470	126,606	144,013	
Current liabilities	70,131	95,779	83,886	96,735	109,570	
Provisions and others	16,883	21,365	25,583	29,872	34,442	
Net current assets	-21,491	-40,788	-10,898	22,495	73,205	
Others (net)	0	0	0	0	0	
<b>Application of funds</b>	<b>242,198</b>	<b>270,075</b>	<b>313,804</b>	<b>362,804</b>	<b>418,268</b>	

Source: Company, JM Financial

Cash flow statement						(₹ mn)
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E	
Reported net profit	37,112	45,718	59,561	68,351	78,333	
Depreciation and amort.	24,265	28,239	29,335	32,519	35,206	
-Inc/dec in working cap.	987	7,060	-25,026	858	-8,769	
Others	0	0	0	0	0	
<b>Cash from operations (a)</b>	<b>62,364</b>	<b>81,017</b>	<b>63,870</b>	<b>101,728</b>	<b>104,770</b>	
-Inc/dec in investments	-26,961	-49,717	-10,000	-10,000	-10,000	
Capex	-31,562	-24,571	-33,175	-38,127	-29,960	
Others	15,379	12,434	-21,606	-4,844	-9,001	
<b>Cash flow from inv. (b)</b>	<b>-43,144</b>	<b>-61,854</b>	<b>-64,780</b>	<b>-52,971</b>	<b>-48,961</b>	
Inc/-dec in capital	-1,391	-34	0	0	0	
Dividend+Tax thereon	-8,796	-12,314	-15,832	-19,351	-22,869	
Inc/-dec in loans	-15,132	-5,493	0	0	0	
Others	0	-1,125	0	0	0	
<b>Financial cash flow (c)</b>	<b>-25,319</b>	<b>-18,966</b>	<b>-15,832</b>	<b>-19,351</b>	<b>-22,869</b>	
Inc/-dec in cash (a+b+c)	-6,099	197	-16,743	29,407	32,940	
Opening cash balance	6,297	198	395	-16,348	13,059	
Closing cash balance	198	395	-16,348	13,059	45,999	

Source: Company, JM Financial

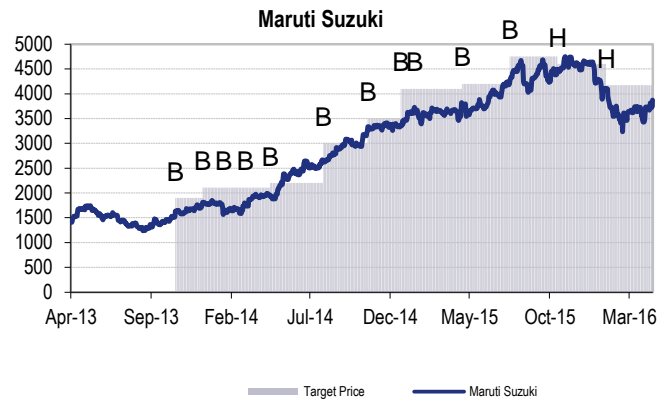
Key Ratios					
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
BV/Share (₹)	783.8	894.3	1,039.1	1,201.3	1,385.0
ROCE (%)	15.9	17.2	19.2	19.3	20.8
ROE (%)	16.9	18.0	20.4	20.2	20.1
Net Debt/equity ratio (x)	-0.5	-0.7	-0.5	-0.6	-0.6
<b>Valuation ratios (x)</b>					
PER	30.9	25.6	19.6	17.1	14.9
PBV	4.9	4.3	3.7	3.2	2.8
EV/EBITDA	16.7	11.8	10.3	8.8	7.5
EV/Sales	2.1	1.8	1.5	1.2	1.0
<b>Turnover ratios (no.)</b>					
Debtor days	8	8	12	12	15
Inventory days	20	20	24	24	25
Creditor days	58	66	52	52	52

Source: Company, JM Financial

**History of earnings estimates and target price**

Date	FY16E EPS (₹)	% Chg.	FY17E EPS (₹)	% Chg.	Target Price	% Chg.
20-Dec-13	126.4				2,106	10.8
29-Jan-14	127.9	1.2			2,106	0.0
11-Mar-14	127.9	0.0			2,106	0.0
28-Apr-14	130.9	2.3			2,200	4.5
7-Aug-14	142.6	8.9			3,000	36.4
31-Oct-14	142.5	-0.1	184.3		3,500	16.7
2-Jan-15	157.2	10.3	204.2	10.8	4,100	17.1
28-Jan-15	157.7	0.3	204.7	0.2	4,100	0.0
29-Apr-15	164.9	4.6	209.7	2.4	4,200	2.4
29-Jul-15	170.5	3.4	213.8	2.0	4,750	13.1
28-Oct-15	170.3	-0.1	210.4	-1.6	4,600	-3.2
29-Jan-16	161.3	-5.3	198.2	-5.8	4,175	-9.2

**Recommendation history**



## APPENDIX I

**JM Financial Institutional Securities Limited**

(Formerly known as JM Financial Institutional Securities Private Limited)

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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