Q3FY19 – Result Update

NALANDA RESEARCH

Institutional Research

January 26, 2019

Maruti Suzuki

Short Term Blips – Structurally Positive

STRONG BUY*

Downside Scenario	Current Price	Price Target	Upside Scenario
	6,516	7,610	
		16.8% ▲	

Q3FY19 – an unusually tough quarter!

The industry reported de-growth of 0.8%, while Maruti's domestic volumes reported a growth of 1.3% in the 3rd quarter. The overall quarter was very unusual for the company as well as for the industry. Maruti Suzuki volumes were flat in Q3FY19 at 4.3L units, were impacted on account of subdued consumer sentiments, lower festive sales, insurance bouncer and some impact of retail financing issues. However, the average selling price improved by 2.6% YoY to Rs. 4.6L per vehicle on account of a better product mix. This is despite of higher discounts for the quarter to clear off the inventory levels. The net revenues increased by 2.0% YoY to Rs. 19,668 crores, majorly led by an improvement in the realization.

The company disappointed on the margin front, which declined by 590bps YoY to 9.8% in Q3FY19, which was one of the lowest margin seen in the last four years. We ascribe the below reasons for the same:

1. Sharp increase in the commodity prices
2. Adverse impact of FX rates
3. Increase in the marketing and sales expenditures
4. Higher costs in resources and capacities
5. Lower volumes, which led to operating deleverage
6. Unable to take the price increase due to intense competition

This was partly offset by the company's rigorous cost reduction efforts.

Our View

We believe all the negatives are priced in the stock as the company's leadership remains intact and they are still growing higher than the industry. The outlook remains bright. We believe all the uncertainties for the next few months are already priced in and trust that the moat of Maruti remains intact w.r.t. low cost manufacturer, an unmatched distribution reach & over the years has created a loyalty among the consumers. The company has been gaining market share from the last few years as they keep innovating & introducing newer products/refreshers which kept the consumers excited. We recommend lapping-up the stock at these levels as the structural story remains intact and one should not be worried about the short-term blips in the industry.

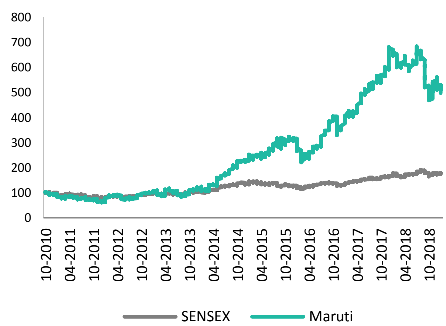
Eye-catching Valuations

We have arrived at the fair value of Maruti Suzuki at Rs. 7,610 per share, valued it by averaging P/E & EV/EBITDA valuation methodology. The company has been trading at a forward P/E multiple of close to 20.1x in the past few years and 12.5x on EV/EBITDA. We have rolled over to FY21E and assigned similar earning multiples to its FY21E EPS & EBITDA to arrive at a fair value of Rs. 7,610, ***seeking an upside of 16.8% from the current levels.*** We have adjusted the financials & removed the 10% premium assigned to its earning multiple by looking at the short term uncertainties in the automotive industry.

Market Data	
Industry	Automobile
Sensex	36,025
Nifty	10,781
Bloomberg Code	MSIL:IN
Eq. Cap. (INR Crores)	151
Face Value (INR)	5
52-w H/L	9,923/6,420
Market Cap (INR Crores)	1,96,835

Valuation Data	FY19E	FY20E	FY21E
OPM	13.8%	14.7%	15.4%
NPM	8.6%	9.2%	9.8%
P/E (x)	26.1	20.9	17.4
EV/EBITDA (x)	16.0	12.8	10.5

Maruti Suzuki vs SENSEX



Shareholding Pattern (%)	Dec-17	Mar-18	Dec-18
Promoters	56.2%	56.2%	56.2%
FII	25.8%	25.2%	22.7%
DII	11.0%	11.5%	13.4%
Retail	7.0%	7.1%	7.7%
Total	**100%**	**100%**	**100%**

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	68,035	79,763	88,005	1,01,995	1,15,875
Growth (%)	*18.2%*	*17.2%*	*10.3%*	*15.9%*	*13.6%*
EBITDA	10,248	11,962	12,131	15,002	17,860
Growth (%)	68,035	79,763	88,005	1,01,995	1,15,875
EBITDA Margin (%)	15.1%	15.0%	13.8%	14.7%	15.4%
PAT	7,350	7,722	7,531	9,429	11,326
Growth (%)	*37.0%*	*5.1%*	*-2.5%*	*25.2%*	*20.1%*
EPS (INR)	243	256	249	312	375
P/E (x)	20.1	30.7	26.1	20.9	17.4
EV/EBITDA (x)	14.2	19.7	16.0	12.8	10.5

Source: Company, NSPL Research

** Read last page for disclaimer & rating rationale*

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Q3FY19 Result Analysis

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	2QFY19	QoQ (%)	9MFY19	9MFY18	YoY (%)
Volumes (Nos)	**4,28,643**	**4,31,112**	**-0.6%**	**4,84,848**	**-11.6%**	**14,03,970**	**13,17,801**	**6.5%**
Realization (Rs)	**4,58,850**	**4,47,290**	**2.6%**	**4,62,685**	**-0.8%**	**4,59,845**	**4,44,658**	**3.4%**
Net sales	**19,668**	**19,283**	**2.0%**	**22,433**	**-12.3%**	**64,561**	**58,597**	**10.2%**
COGS	14,044	13,332	5.3%	15,285	-8.1%	44,831	40,599	10.4%
Employee Expenses	881	687	28.3%	792	11.3%	2,438	2,006	21.6%
Other Expenses	2,849	2,244	27.0%	2,962	-3.8%	8,646	7,029	23.0%
EBITDA	**1,931**	**3,038**	**-36.4%**	**3,431**	**-43.7%**	**8,736**	**9,047**	**-3.4%**
D&A	768	689	11.4%	721	6.4%	2,209	2,055	7.5%
Other income	917	245	274.6%	527	74.2%	1,693	1,451	16.7%
EBIT	**2,081**	**2,594**	-19.8%	**3,237**	-35.7%	**8,221**	**8,442**	-2.6%
Interest Expense	21	26	-21.7%	26	-19.8%	67	73	-7.7%
PBT	**2,060**	**2,567**	**-19.8%**	**3,211**	**-35.8%**	**8,154**	**8,369**	**-2.6%**
Tax	571	768	-25.7%	971	-41.2%	2,449	2,529	-3.2%
PAT	**1,489**	**1,799**	**-17.2%**	**2,240**	**-33.5%**	**5,705**	**5,840**	**-2.3%**
EPS in INR	**49**	**60**	**-17.2%**	**74**	**-33.5%**	**189**	**193**	**-2.3%**

Margin Analysis	Q3FY19	Q3FY18	YoY (%)	2QFY19	QoQ (%)	9MFY19	9MFY18	YoY (%)
Material Expenses % Net Sales	71.4%	69.1%	2.3%	68.1%	3.3%	69.4%	69.3%	0.2%
Gross Margin	28.6%	30.9%	-2.3%	31.9%	-3.3%	30.6%	30.7%	-0.2%
Employee Expenses % Net Sales	4.5%	3.6%	0.9%	3.5%	1.0%	3.8%	3.4%	0.4%
Other Expenses % Net Sales	14.5%	11.6%	2.8%	13.2%	1.3%	13.4%	12.0%	1.4%
EBITDA Margin (%)	9.8%	15.8%	-5.9%	15.3%	-5.5%	13.5%	15.4%	-1.9%
Tax Rate (%)	27.7%	29.9%	-2.2%	30.2%	-2.5%	30.0%	30.2%	-0.2%
PAT Margin (%)	7.6%	9.3%	-1.8%	10.0%	-2.4%	8.8%	10.0%	-1.1%

Q3FY19 Quarter – Decoded

The Q3FY19 was an unusually tough quarter for the industry as weak market conditions dragged the overall volumes. In addition the exports too remained weak. We believe the volumes play a very critical role, else all growth enabling expenses increase proportionately. Besides weak market conditions, the commodity pressures remain very severe.

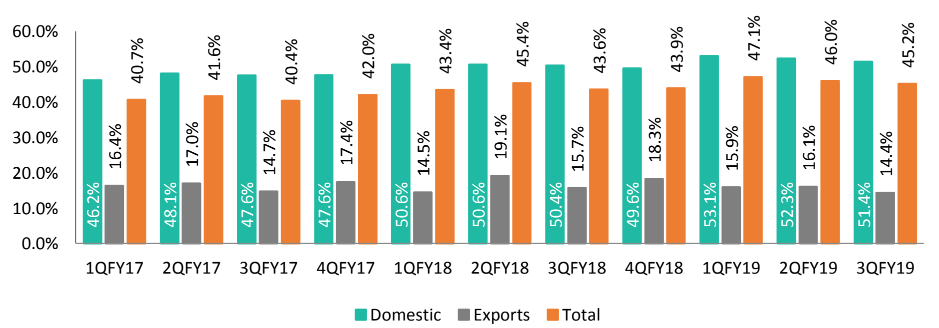
Steady Topline Performance

1. The volumes remain flattish (-0.6% YoY to 4.3L Units) for Maruti *(still better than the industry growth)*, however, it managed to improve its realization (+2.6% YoY to Rs. 4.6L per vehicle) on account of better product mix. The realization improvement was commendable despite of higher discounting in the quarter gone by.
2. Maruti's domestic volumes increased by 1.3% YoY to 4,05,597 units, while exports de-grew by 24.5% YoY to 23,046 units. The global markets remained subdued, few of the markets ring-fenced itself from more imports and devaluation of most of the currencies impacted the overall export sales.
3. The export revenue for the quarter was Rs. 1,158 crores.
4. **The focus in the 4th quarter is majorly to enhance its sales and achieve its lower guided volume target of 8% YoY growth in FY19E.**

Poor Operational Performance

1. The raw material prices was the major factor of drag in the EBITDA Margin, which declined awfully by 590bps YoY to 9.8%. The RM to net revenues climbed higher by 230bps YoY to 71.4% for the quarter, while employee and other expenses too increased by 90bps and 280bps respectively.
2. The raw material prices increased led by an increase in the commodity prices.
3. The employee expenses increased on account of one-off exceptional expenses viz. leave encashment and retrial benefits.
4. The other expenses were higher majorly due to increase in the marketing and sales expenses to clear off the inventories, discounts and to support the dealers. However, the inventories are at normal levels.
5. The royalty was 5.5% of net revenues to Suzuki in Q3FY19 and we believe directionally it should come down in the coming years, this is on account of the revised agreement with Suzuki that will move from Yen based to Rupee based formula for all the new models starting from Ignis. We expect that by FY22, all the models will move to a new formula.

Maruti's Rising Market Share (%)



Source: Company, NSPL Research

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Volume Projections	FY17	FY18	FY19E	FY20E	FY21E
Domestic Sales (in units)					
Utility Vehicles	1,95,741	2,53,759	2,62,641	2,94,157	3,22,102
Vans	1,52,009	1,55,137	1,75,305	1,94,588	2,08,210
Passenger Cars	10,95,891	12,34,571	13,33,337	15,06,670	16,19,671
Goods Carriers	900	10,033	27,591	41,386	53,802
Total Domestic Volume Sales	**14,44,541**	**16,53,500**	**17,98,873**	**20,36,802**	**22,03,785**
YoY Growth (%)	-	***14.5%***	***8.8%***	***13.2%***	***8.2%***
Export Sales (in units)					
Utility Vehicles	11,423	5,463	6,064	7,277	8,004
Vans	1,868	1,480	1,702	1,889	2,040
Passenger Cars	1,08,742	1,16,960	99,416	1,04,387	1,09,606
Goods Carriers	1,968	2,171	2,497	3,121	3,589
Total Export Volume Sales	**1,24,001**	**1,26,074**	**1,09,679**	**1,16,674**	**1,23,240**
YoY Growth (%)	-	***1.7%***	***-13.0%***	***6.4%***	***5.6%***
Domestic + Exports (in units)					
Utility Vehicles	2,07,164	2,59,222	2,68,704	3,01,434	3,30,107
Vans	1,53,877	1,56,617	1,77,007	1,96,478	2,10,250
Passenger Cars	12,04,633	13,51,531	14,32,753	16,11,057	17,29,277
Goods Carriers	2,868	12,204	30,087	44,507	57,391
Total Volume Sales	**15,68,542**	**17,79,574**	**19,08,551**	**21,53,476**	**23,27,024**
YoY Growth (%)	-	***13.5%***	***7.2%***	***12.8%***	***8.1%***
Blended Realization (Rs.)	**4,33,729**	**4,48,212**	**4,61,106**	**4,73,628**	**4,97,952**
YoY Growth (%)	-	***3.3%***	***2.9%***	***2.7%***	***5.1%***

Source: Company, NSPL Research

Key Risks:

1. Higher than expected increase in the commodity prices can impact its margins
2. Weakness in the domestic passenger vehicle industry
3. Rising competition
4. Sharp weakness in the export markets led by a correction in the oil and commodity prices, etc.

Demand Environment

We believe the company won't be able to achieve the guided double digit volume growth in FY19E. The 2QFY19 quarter was impacted by floods and heavy monsoons and the 3rd quarter remained soft led by higher insurance prices and soft festive season. However, the pent-up demand and new launches can pull the demand higher in 4QFY19.

Export Markets

The export markets are also facing challenges as the macro-economic situation doesn't look stable. Few of the market has imposed restriction on its imports and currencies sharply devalued for those countries. We feel, globally there are many headwinds on the exports as most of the markets are facing the economic slowdown and hence, we expect a decline in Maruti's exports in FY19E. The focus remains on the domestic market.

Difficult to Achieve Volume Guidance

Maruti has earlier guided for a double digit volume growth in FY19E, which we believe to remain shaky on account of soft domestic demand and uncertainties in the export market. Hence, we have conservatively projected and expects the volumes to shoot up in FY20E (especially in H2FY20) led by pre-buying before the implementation of BS6.

Realization *to continue to improve gradually led by new models/refreshers and change in the product mix towards premium & SUV models. We have estimated moderate realization growth in FY20E led by higher sales from the premium launches, along with mandatory safety standards from next year and expect higher realization growth in FY21E led by the implementation of BS6.*

We expect the Demand is set to Improve and ascribes following reasons for the same:

1. Maruti increased its prices by about 70bps in the month of January and additionally, the commodity prices in the past months have softened a bit. The management too sees the commodity pressures to decline in FY20E.
2. This, along with the improvement in the liquidity situation in the market and sharp fall in the fuel prices should improve the overall consumer sentiments.
3. Moreover, to attract the customers, Maruti has been launching newer models/refreshers.
4. The discounts in the 3rd quarter were at all time high levels *(at Rs. 24,300 per vehicle)*, which has softened in the 4th quarter FY19E. The discounts in 9MFY19 were Rs. 19,200 per vehicle.
5. Being an election year, people might spend well and the monsoons were also good. The rural has been growing at 13% YoY (*39% contribution from rural)*, while urban sales remain flattish.
6. Maruti's newly launched WagonR and Ertiga is well received and appreciated in the market. 55,000+ bookings done in Ertiga and 14,000+ for WagonR so far. There is a waiting period of 28 weeks for Ertiga.
7. All this indicates the upcoming quarter should be much better in terms of operational performance for Maruti.
8. The management remain very optimistic that they will continue to beat the industry growth and will gain further market share.
9. On the other side, the management does see intense competition in some models and demand deferral, while enquiries are fine.

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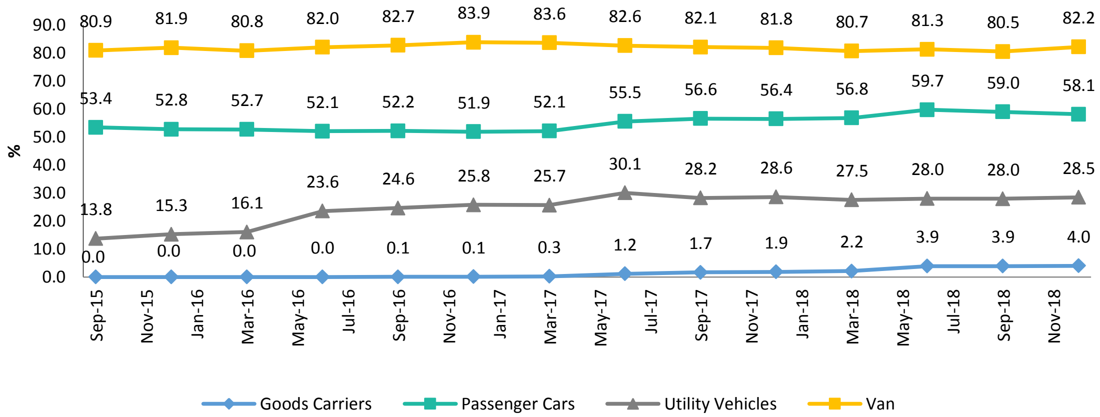
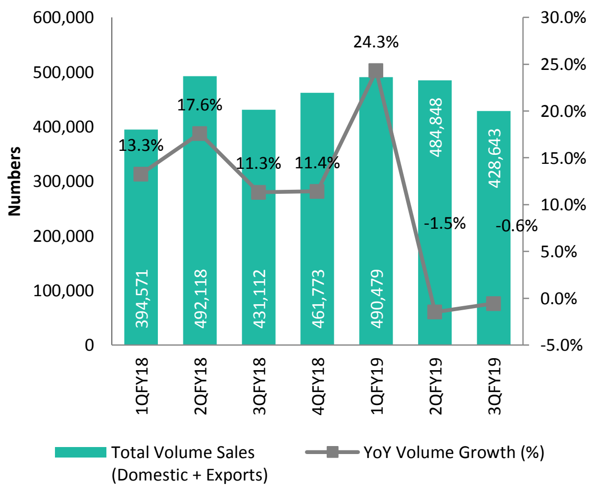
Story in Charts

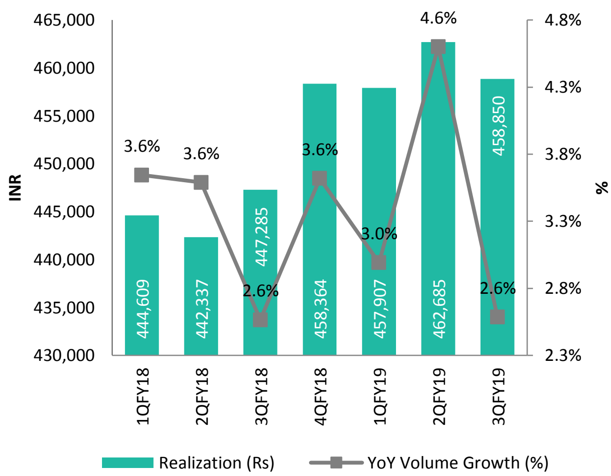
Improving Market Share (%)



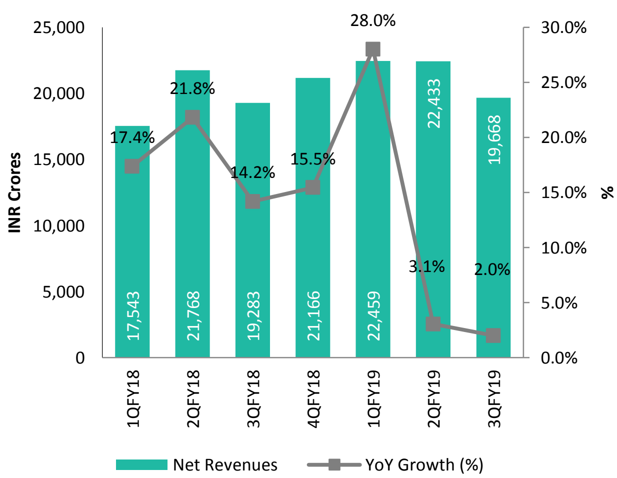
Volumes Higher than Industry Growth



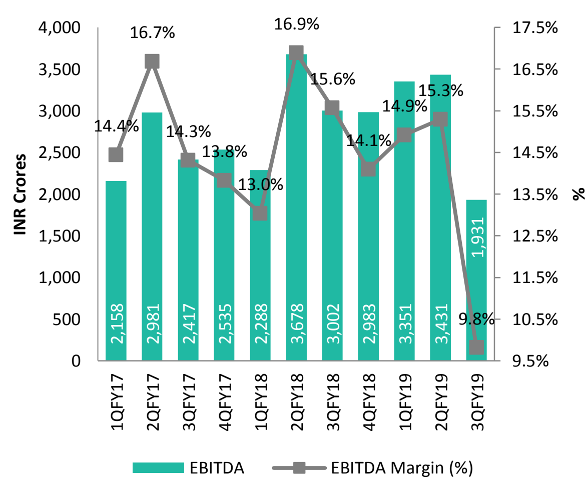
Healthy & Consistent Realization Growth



Strong Revenue Growth



EBITDA Margins at Healthy Levels



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Profit & Loss (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	**68,035**	**79,763**	**88,005**	**1,01,995**	**1,15,875**
COGS	46,732	54,975	60,723	70,784	81,112
Employee Expenses	2,331	2,834	3,271	3,606	3,976
Other Expenses	8,724	9,992	11,879	12,602	12,927
EBITDA	**10,248**	**11,962**	**12,131**	**15,002**	**17,860**
D&A	2,602	2,758	3,222	3,687	4,151
Other income	2,300	2,046	2,220	2,573	2,923
EBIT	**7,646**	**9,205**	**8,909**	**11,315**	**13,709**
Interest Expense	89	346	371	418	452
PBT	**9,960**	**11,003**	**10,758**	**13,470**	**16,180**
Tax	2,610	3,282	3,228	4,041	4,854
PAT	**7,350**	**7,722**	**7,531**	**9,429**	**11,326**
EPS in INR	**243**	**256**	**249**	**312**	**375**

Balance Sheet (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
ASSETS					
Non-Current Assets					
Property, plant and equipment	12,920	13,047	13,526	13,569	13,177
Capital work-in-progress	1,252	2,126	2,126	2,133	2,071
Intangible assets	373	312	249	168	68
Financial assets					
Investments	26,302	34,073	37,594	43,570	49,499
Loans	0	0	0	0	0
Other financial assets	24	32	36	41	47
Other non-current assets	1,603	1,858	2,050	2,376	2,700
Total Non-Current Assets	**42,474**	**51,449**	**55,581**	**61,858**	**67,562**
Current Assets					
Inventories	3,262	3,161	3,491	4,070	4,664
Financial assets					
Investments	2,179	1,217	1,343	1,557	1,768
Trade receivables	1,199	1,462	1,613	1,869	2,124
Cash and cash equivalents	13	70	1,700	3,362	6,857
Loans	3	3	3	3	3
Other financial assets	95	285	314	364	413
Current tax assets (Net)	485	411	402	503	604
Other current assets	1,539	1,312	1,447	1,678	1,906
Total Current Assets	**8,775**	**7,920**	**10,313**	**13,405**	**18,339**
Total Assets	**51,250**	**59,369**	**65,894**	**75,263**	**85,901**
EQUITY AND LIABILITIES					
Equity					
Equity Share capital	151	151	151	151	151
Other equity	36,280	41,606	46,478	52,577	59,904
Total Equity	**36,431**	**41,757**	**46,629**	**52,728**	**60,055**
LIABILITIES					
Non-current liabilities					
Provisions	22	27	29	34	38
Deferred tax liabilities (net)	466	559	546	684	822
Other non-current liabilities	1,105	1,585	1,749	2,027	2,303
Total Non - Current Liabilities	**1,593**	**2,171**	**2,325**	**2,745**	**3,163**
Current liabilities					
Financial liabilities					
Borrowings	483	110	120	139	158
Trade Payables	8,367	10,497	11,595	13,516	15,488
Other financial liabilities	1,303	1,334	1,472	1,706	1,938
Provisions	449	560	618	716	814
Current tax liabilities (Net)	799	854	835	1,046	1,256
Other current liabilities	1,825	2,086	2,302	2,668	3,031
Total Current Liabilities	**13,226**	**15,441**	**16,941**	**19,790**	**22,683**
Total Liabilities	**14,819**	**17,612**	**19,266**	**22,535**	**25,847**
Total Equity and Liabilities	**51,250**	**59,369**	**65,894**	**75,263**	**85,901**

Source: Company, NSPL Research

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Cash Flow (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Profit Before Tax	9,960	11,003	10,758	13,470	16,180
Operating Profit before Working Capital Changes	10,407	12,034	12,131	15,002	17,860
Cash Generated from Operations	12,601	14,840	12,942	16,704	19,597
Less: income tax paid	-2,321	-3,055	-3,228	-4,041	-4,854
Cash Flow from Operating	**10,279**	**11,785**	**9,715**	**12,663**	**14,743**
(Incr)/ Decr in Gross PP&E	-3,250	-3,892	-3,701	-3,737	-3,697
Cash Flow from Investing	**-9,178**	**-8,282**	**-5,065**	**-7,272**	**-6,815**
Dividends Paid (including tax on dividend)	-1,057	-2,266	-2,210	-2,767	-3,323
Finance costs	-110	-346	-371	-418	-452
Cash Flow from Financing	**-1,129**	**-3,446**	**-3,020**	**-3,729**	**-4,433**
Incr/(Decr) in Balance Sheet Cash	-28	57	1,630	1,662	3,495
Cash at the Start of the Year	41	13	70	1,700	3,362
Cash at the End of the Year	**13**	**70**	**1,700**	**3,362**	**6,857**

RATIOS	FY17	FY18	FY19E	FY20E	FY21E
Growth (%)					
Net Revenues	18.2%	17.2%	10.3%	15.9%	13.6%
EBITDA	16.5%	16.7%	1.4%	23.7%	19.1%
PAT	37.0%	5.1%	-2.5%	25.2%	20.1%
Profitability					
Return on Capital (%)	21.0%	22.0%	19.1%	21.5%	22.8%
Return on Equity (%)	20.2%	18.5%	16.2%	17.9%	18.9%
Margin Trend					
EBITDA Margin (%)	15.1%	15.0%	13.8%	14.7%	15.4%
Net profit Margin (%)	10.8%	9.7%	8.6%	9.2%	9.8%
Solvency					
Total Debt / Equity	0.0	0.0	0.0	0.0	0.0
Net Debt / Equity	0.0	0.0	-0.1	-0.1	-0.1
Valuation Ratios					
P/E	20.1	30.7	26.1	20.9	17.4
EV/EBITDA	14.2	19.7	16.0	12.8	10.5
P/B	4.0	5.7	4.2	3.7	3.3

Source: Company, NSPL Research

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Maruti Suzuki			
Date	**CMP (INR)**	**Target Price (INR)**	**Recommendation**
January 26, 2019	6,516	7,610	Strong Buy
October 26, 2018	6,725	8,417	Strong Buy

Rating Legend	
Strong Buy	**More than 15%**
Buy	**5% - 15%**
Hold	**0 – 5%**
Reduce	**-5% - 0**
Sell	**Less than -5%**

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	• NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI • **SEBI Registration Number: INH000004617**
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
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Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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