

CMP: Rs 6890

Rating: Hold

Target: Rs 7352

(NR-Not Rated)

Stock Info

INDEX	
BSE	532500
NSE	MARUTI
Bloomberg	MSIL IN
Reuters	MRTI.NS
Sector	Automobiles
Face Value (Rs)	5
Equity Capital (Rs mn)	1510
Mkt Cap (Rs bn)	2120
52w H/L (Rs)	9922 / 6324
Avg Weekly Vol (BSE+NSE)	193,355

Shareholding Pattern

	%
(As on March, 2019)	
Promoters	56.2
Public & Others	43.8

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
MARUTI	5.9	2.6	-22.8
SENSEX	7.7	11.6	5.4

Source: ACE Equity, Arihant Research

MARUTI v/s SENSEX



Source: ACE Equity, Arihant Research

Result Highlights

Maruti (MSIL) Q4FY19 results improved sequentially at the operating level as Net sales stood at Rs 215bn (1.4% YoY / 9.1% QoQ). Realizations were at Rs 468k (2% YoY and QoQ) on lower discounts and impressive response to its new model launches (*Ertiga* and *Wagon R*). Gross margins at 28.1% (-395bps YoY/ -47bps QoQ) were impacted by lower volume offtake and adverse forex impact of 60bps. In Q4, weak passenger car sales (-5% YoY) were offset by strong UV sales (+14% YoY) which remained a bright spot. The EBITDA margin stood at 10.5% (-440bps YoY/+50bps QoQ) and were impacted by higher staff costs (+12% YoY). On the concall, management attributed the softness in demand to weak sentiments however expects demand to improve from Q2 FY20 led by pre-buying ahead of BS 6 related cost increases and improving macro scenario.

For FY19, the overall volumes stood 1.8mn (+4.7% YoY). New challenges emerged during the year which led to a significant demand slowdown in H2 namely 1) subdued festive sales; 2) high discounts offered to correct elevated inventory levels; 3) deferment of purchases during elections. **While the near term demand remains challenging, we believe Maruti is well poised to overcome the short term headwinds on account of 1) diversified product portfolio with presence across different price points 2) least vulnerable to BS 6 cost increase as diesel mix stands at 25%.**

Concall highlights

- **Demand outlook** - In FY19, domestic PV industry grew by 2.7% YoY while MSIL grew by 6% YoY. The management indicated that near term demand outlook remains uncertain. Rural demand grew (+10% YoY) faster than urban market (-2% YoY). The rural urban mix stands at 61:39
- In Q4, inventory (RM+FG) and forex impacted **margins** by 100bps and 50bps QoQ respectively. Commodities and currency costs have come off peak and shall positively impact with a quarter lag. MSIL plans to reduce import content by 25% over next 2-3 years.
- The management indicated that **channel inventory** stood at comfortable levels of 25-28 days.
- Average **discounts** during Q4 stood at Rs15k (down by 7k QoQ).
- The production from the **Gujarat** plant stood at 96k. The second plant has seen a decent ramp up and had an impact of 70bps on the margins.
- **Price hikes** taken in Jan had a positive impact of 90bps.
- **Export** revenue stood at Rs 15bn for Q4 and Rs 53bn for FY19. MSIL plans to enter African market over the medium term.
- **Royalty** stood at 5% of sales and 40% of models have shifted to new royalty system.
- MSIL incurred **capex** of Rs 45bn in FY19 and plans capex of Rs 45bn for FY20.

Outlook and valuation

We believe over the medium term, MSIL is well poised to counter numerous technology and safety related regulations and continue to gain market share backed by new product launches. The recent price correction offers a strong entry point and at CMP stock trades at 20x FY21E. We estimate revenue/EBITDA/PAT CAGR of 10%/16%/19% over FY19-21E. We recommend an HOLD rating on the stock and value it at 21x FY21E for a target price of Rs7352 with an upside of 7%.

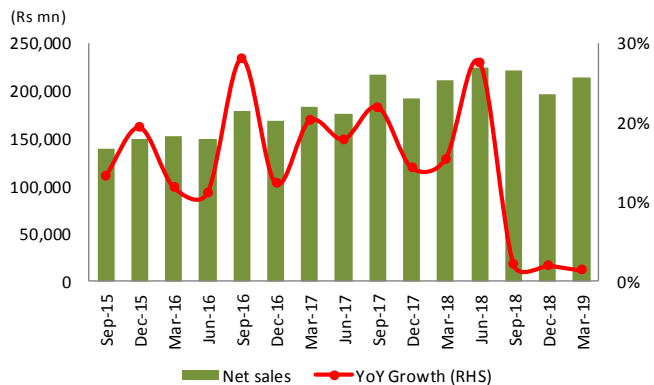
Quarterly result summary

Standalone (Rsmn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (%)	QoQ (%)
Net Sales	211,656	224,594	222,332	196,683	214,594	1.4	9.1
- Raw Material	143,763	155,020	152,849	140,437	154,236	7.3	9.8
(% of Net Sales)	67.9	69.0	68.7	71.4	71.9	395	47
- Staff Expenditure	7,282	7,652	7,917	8,331	8,169	12.2	(1.9)
(% of Net Sales)	3.4	3.4	3.6	4.2	3.8	37	(43)
- Other Expenditure	28,961	28,411	29,253	28,124	29,555	2.1	5.1
(% of Net Sales)	13.7	12.6	13.2	14.3	13.8	9	(53)
Total Expenditure	180,006	191,083	190,019	176,892	191,960	6.6	8.5
EBITDA	31,650	33,511	32,313	19,791	22,634	(28.5)	14.4
EBITDA Margin (%)	15.0	14.9	14.5	10.1	10.5	(441)	48
Depreciation	7,025	7,198	7,212	7,677	8,102	15.3	5.5
EBIT	24,625	26,313	25,101	12,114	14,532	(41.0)	20.0
Interest	226	207	257	206	88	(61.1)	(57.3)
Other Income	5,950	2,718	5,266	9,173	8,677	45.8	(5.4)
PBT	30,349	28,824	30,110	21,081	23,121	(23.8)	9.7
Tax	7,523	9,071	9,706	5,708	5,165	(31.3)	(9.5)
Tax Rate (%)	24.8	31.5	32.2	27.1	22.3	(245)	(474)
Adjusted PAT	22,826	19,753	20,404	15,373	17,956	(21.3)	16.8
Exceptional Items	(4,005)	0	2,000	(480)	0	NA	NA
Reported PAT	18,821	19,753	22,404	14,893	17,956	(4.6)	20.6
Reported EPS (INR)	62.30	65.39	74.17	49.30	59.44	(4.6)	20.6
Volumes (In Nos)	461,773	490,479	484,751	428,643	458,479	(0.7)	7.0
Net Realisation (INR)	458,355	457,907	458,652	458,850	468,056	2.1	2.0
EBITDA / Vehicle (INR)	68,540	68,323	66,659	46,171	49,368	(28.0)	6.9
Volumes (In nos)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (%)	QoQ (%)
Domestic	427,082	463,840	455,303	405,597	428,863	0.4	5.7
A: Mini	104,616	105,039	108,576	90,450	74,985	(28.3)	(17.1)
A: Compact + Super compact	201,966	232,667	219,748	188,656	220,733	9.3	17.0
A: Mid-Size + Exec	14,280	10,719	13,296	12,464	9,690	(32.1)	(22.3)
Total cars	320,862	348,425	341,620	291,570	305,408	(4.8)	4.7
B: UVs	63,781	65,754	64,115	64,501	69,827	9.5	8.3
C: Vans	42,439	49,661	49,568	49,526	53,628	26.4	8.3
Export	34,691	26,639	29,448	23,046	29,616	(14.6)	28.5
Total Volumes	461,773	490,479	484,751	428,643	458,479	(0.7)	7.0

Source: Company, Arianth Capital Markets

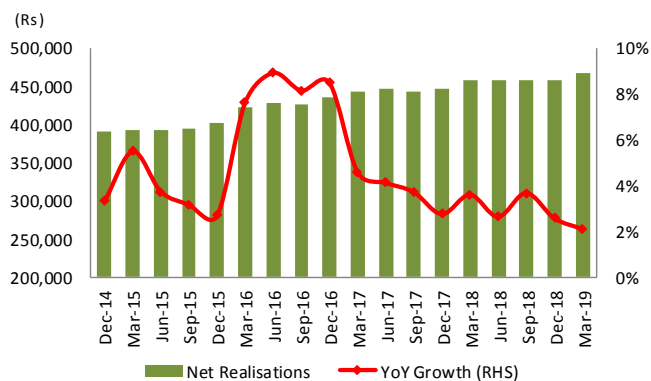
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Exhibit 1: Quarterly revenue and growth trend



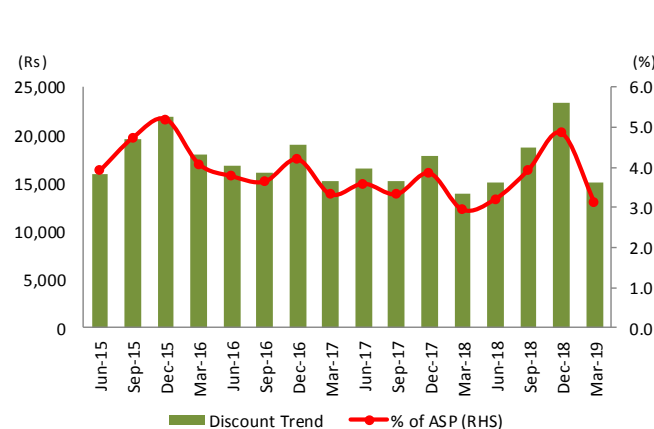
Source: Company, Aриhant Capital Markets

Exhibit 2: Quarterly realizations and growth trend



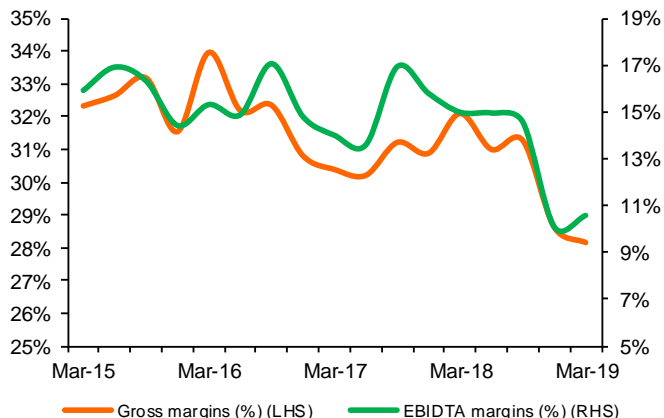
Source: Company, Aриhant Capital Markets

Exhibit 3: Quarterly discount and % of sales trend



Source: Company, Aриhant Capital Markets

Exhibit 4: Quarterly gross and EBITDA margins trend



Source: Company, Aриhant Capital Markets

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Profit & Loss Statement

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	680,646	797,627	860,205	929,547	1,033,931
Growth, %	19	17	7	8	12
RM expenses	-467,316	-549,750	-602,542	-639,064	-712,378
Employee expenses	-23,310	-28,338	-32,549	-38,408	-43,017
Other expenses	-86,205	-98,924	-115,119	-123,659	-130,359
EBITDA (Core)	103,815	120,615	109,995	128,417	148,176
Growth, %	17	16	(9)	17	15
Margin, %	15.3	15.1	12.8	13.8	14.3
Depreciation	-26,021	-27,579	-30,189	-30,365	-35,976
EBIT	77,794	93,036	79,807	98,052	112,200
Growth, %	28	20	(14)	23	14
Margin, %	11.4	11.7	9.3	10.5	10.9
Interest paid	-1,319	-178	-758	-850	-915
Other Income	22,798	20,455	25,610	32,012	38,735
Non-recurring Items	0	(3,285)	0	0	0
Pre-tax profit	99,273	113,313	104,658	129,214	150,020
Tax provided	-26,036	-32,816	-29,650	-38,118	-44,256
Profit after tax	73,237	80,497	75,008	91,096	105,764
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	73,237	77,212	75,008	91,096	105,764
Growth, %	36	5	(3)	21	16
Net Profit (adjusted)	73,237	80,497	75,008	91,096	105,764

Source: Company, Aриhant Capital Markets

Balance Sheet

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & bank	131	711	1,789	22,144	42,069
Marketable securiti	267,012	337,630	354,952	409,952	464,952
Debtors	11,992	14,618	23,104	20,657	22,976
Inventory	32,622	31,608	33,257	39,054	43,534
Loans & advances	28	32	160	176	194
Other current assets	37,461	38,981	14,851	14,851	14,851
Total current assets	82,234	85,950	73,161	96,882	123,624
Investments	15,272	15,272	15,272	15,272	15,272
Gross fixed assets	311,264	360,954	407,120	433,454	465,954
Less: Depreciation	-199,785	-227,364	-257,553	-287,918	-323,894
Add: Capital WIP	33,937	21,259	16,001	16,001	16,001
Net fixed assets	111,478	133,590	149,567	145,537	142,060
Total assets	509,933	593,701	608,953	683,643	761,910
Current liabilities	134,037	163,566	133,763	154,691	169,894
Provisions	4,709	5,865	6,639	7,303	8,033
Total current liabilities	138,746	169,431	140,402	161,994	177,927
Non-current liabilities	4,640	5,589	5,640	5,640	5,640
Total liabilities	143,386	175,020	146,042	167,634	183,567
Paid-up capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	360,201	416,063	459,905	513,699	576,152
Shareholders' equity	361,711	417,573	461,415	515,209	577,662
Total equity & liabilities	509,933	593,701	608,953	683,643	761,910

Source: Company, Aриhant Capital Markets

Cash Flow

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Pre-tax profit	99,273	110,028	104,658	129,214	150,020
Depreciation	26,021	27,579	30,189	30,365	35,976
Chg in working capital	23,320	27,549	-15,162	18,227	9,115
Total tax paid	-26,036	-32,816	-29,323	-38,118	-44,256
CFO	119,883	119,927	62,284	108,525	113,036
Capital expenditure	-36,267	-37,013	-40,908	-26,334	-32,500
Chg in marketable sec	-40,000	-40,000	-40,000	-40,000	-40,000
Chg in investments	-42,962	-30,618	22,678	-15,000	-15,000
CFI	-96,431	-87,176	-32,620	-49,322	-48,765
Free cash flow	43,616	42,914	-18,623	42,191	40,536
Debt raised/(repaid)	4,062	-3,728	388	-695	-120
Dividend (incl. tax)	-26,454	-28,265	-28,215	-37,304	-43,310
CFF	-23,712	-32,171	-28,585	-38,849	-44,345
Net chg in cash	(260)	580	1,080	20,354	19,925
Opening cash balance	391	131	711	1,789	22,144
Closing cash balance	131	711	1,789	22,144	42,069

Source: Company, Aриhant Capital Markets

Ratios

YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (INR)	242	266	248	302	350
PER (x)	28.8	26.2	28.1	23.1	19.9
Price/Book (x)	5.8	5.0	4.6	4.1	3.6
EV/EBITDA (x)	17.8	14.7	15.9	13.1	10.8
EV/Net sales (x)	2.8	2.3	2.1	1.9	1.5
RoE (%)	22	21	17	19	19
RoCE (%)	30	29	24	26	27
Fixed Asset turnover (x)	2.2	2.2	2.1	2.1	2.2
Dividend Yield (%)	1.1	1.1	1.1	1.5	1.8
Receivable (days)	7	7	10	8	8
Inventory (days)	21	17	16	18	18
Payable (days)	53	57	47	53	53
Revenue Growth (%)	19	17	7	8	12
EBITDA Growth (%)	17	16	(9)	17	15
EPS Growth, %	36	10	(7)	21	16
Net D/E ratio (x)	(0.8)	(0.9)	(0.8)	(0.9)	(0.9)

Source: Company, Aриhant Capital Markets

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park ,
 Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E).
 Mumbai – 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

Arihant House
 E-5 RatlamKothi
 Indore - 452003, (M.P.)
 Tel: (91-731) 3016100
 Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road Chakala, Andheri (E)
 Tel. 022-42254800 Fax. 022-42254880