

Difficult to sustain the momentum

31st Oct, 2014

CMP: Rs 3,242
Target Price: Rs 3,040
Recommendation: Reduce

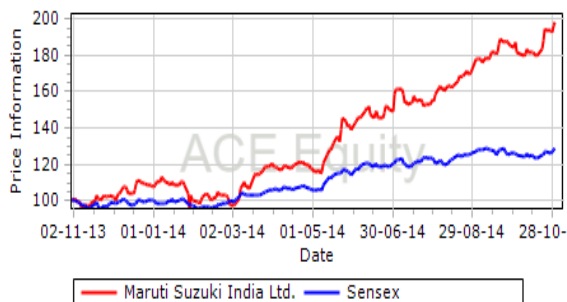
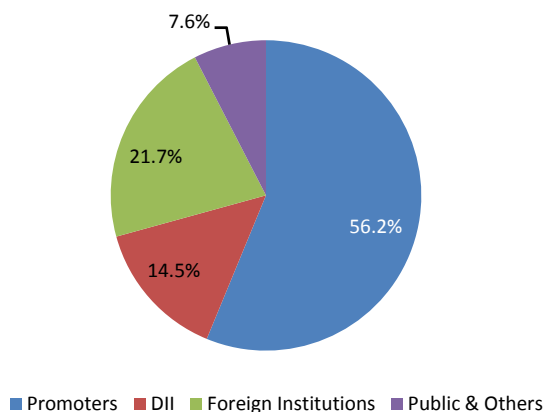
Stock Info

BSE Group	A
BSE Code	532500
NSE Symbol	MARUTI
Bloomberg	MSIL IN
Reuters	MRTI.BO
BSE Sensex	27,346
NSE Nifty	8,169

Market Info

Market Capital	Rs 97,908 crore
Equity Capital	Rs 151 crores
Avg Trading Volume	6,29,500
52 Wk High / low	Rs3,324/1,541
Face Value	Rs 5

Latest Shareholding Pattern (Sep '14)



> **Q2 FY15 Net Revenue** at Rs 11,996 crores was largely in line with expectations. Domestic volumes increased 19% yoy while export volumes increased 0.5%. Thus total volumes increased by 16.8% YoY to 3,21,898 units. Blended realisations increased marginally by 0.6% on YoY basis to Rs 3.73 lakhs.

> **Q2 FY15 Operating EBITDA** was at Rs 1,521 crores, with EBITDA margin at 12.4%. EBITDA margins reduced marginally by 26 bps YoY. However it increased 68 bps sequentially due to cost reduction and increased localizations.

Discounts stood at Rs 22,000 compared to Rs 21,000 in Q1FY15 and Rs 17,500 in Q2FY14.

> **Q2 FY15 Reported PAT** was at Rs 863 crores a growth 28.7% on YoY basis, and PAT margin at 7.2%.

Other highlights:

- Rural demand continues to remain strong with double digit growth in Q1FY15, urban markets also started showing signs of revival registering a high single digit growth.
- Consumer sentiments have improved but yet to see broad based industry growth.
- Discounts are at all time high due to increased competition from overseas players.
- Growth in H2FY15 will not be as strong as in H1FY15 due to higher base.
- Management expects double digit growth in domestic market whereas exports are expected to remain flat at ~ 120K units in FY15.
- Demand for AMT variant of Celerio remains strong with the waiting period of 4 month. Current capacity for Celerio is 4000 units per month and is increasing.
- Newly launched Ciaz in luxury segment has received good response with ~ 16,000 bookings. Company is targeting sales for ~4000 units per month in first year.
- Company has recently launched new improved Swift which has 10% more mileage.
- Company will be launching two SUV's, 1 each in 1QFY16 and 1QFY17.
- MSIL will have to keep launching newer models/variant to keep competition at bay.

Valuation: The stock at Rs 3,242 trades at 27.5x and 19.2x our estimated EPS of Rs 118 and Rs 169 per share for FY15E & FY16E respectively. We value the stock at 18x FY16 EPS, and assign a price target of Rs 3,040 with a "Reduce" recommendation.

Y/E March, (in Rs crore)	FY13	FY14	FY15 E	FY16 E
Total Unit Sales	11,71,434	11,55,041	12,23,893	13,95,482
Net Sales	42,613	42,645	48,670	60,133
yoy%	22.8%	0.1%	14.1%	23.6%
Operating EBITDA	4,230	5,096	6,258	8,348
EBITDA margin	9.7%	11.7%	12.5%	13.5%
PAT	2,392	2,783	3,557	5,101
yoy%	46.3%	16.3%	27.8%	43.4%
EPS	79.2	92.1	117.8	168.9
P/E (x)	40.9	35.2	27.5	19.2

Source: Company data, Arihant Research

P&L (in Rs crore)	Q2FY15	Q2FY14	YoY	Q1FY15	QoQ
Domestic Vehicles	2,87,687	2,41,562	19.1%	2,70,643	6.3%
Export Vehicles	34,211	34,024	0.5%	29,251	17.0%
Total Vehicles	3,21,898	2,75,586	16.8%	2,99,894	7.3%
Net Sales	11,996	10,212	17.5%	11,074	8.3%
Oth Operating Inc	307	256		296	
Total Income	12,304	10,468	17.5%	11,370	8.2%
Total Raw Mat Cost	8,775	7,262	20.8%	8,184	7.2%
Employee Cost	370	372	-0.7%	354	4.6%
Other Expenditure	1,638	1,513		1,504	
Total Expenditure	10,783	9,147	17.9%	10,041	7.4%
Operating EBITDA	1,521	1,321	15.1%	1,328	14.5%
margin %	12.4%	12.6%		11.7%	
Depreciation	599	499		584	
Op EBIT	922	822	12.1%	745	23.8%
Other Income	193	101		297	
Interest (Net)	35	43		39	
PBT	1,080	880		1,003	
Tax Provision	218	210		240	
PAT	863	670	28.7%	762	13.2%
PAT margin	7.2%	6.6%		6.9%	
Tax rate	20.2%	23.8%		24.0%	
Basic EPS	28.55	22.19	28.7%	25.23	13.2%

Source: Company data, Arian Research

Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Net Sales	42,613	42,645	48,670	60,133
YoY%	22.8	0.1	14.1	23.6
Other Operating Income	975	1,056	1,205	1,489
Income from Operations	43,588	43,701	49,875	61,622
Materials Consumed	32,515	31,315	35,661	43,444
Total Expenditure	39,358	38,605	43,618	53,275
Operating EBITDA	4,230	5,096	6,258	8,348
Operating EBITDA margin %	9.7	11.7	12.5	13.5
Depreciation	1,861	2,084	2,302	2,492
Operating EBIT	2,369	3,012	3,955	5,855
Other Income	812	823	920	1,073
Interest	190	176	194	216
PBT	2,991	3,659	4,681	6,712
Tax Expense	599	876	1,123	1,611
Reported Net Profit	2,392	2,783	3,557	5,101
YoY%	46.3	16.3	27.8	43.4
Effective Tax Rate	20.0	23.9	24.0	24.0
Reported EPS	79	92	118	169

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Liabilities + Equity				
(a) Share capital	151	151	151	151
(b) Reserves and surplus	18,428	20,827	23,819	28,072
Shareholders' funds	18,579	20,978	23,970	28,223
Non-current liab & Prov	2,048	2,510	2,650	3,079
Current liabilities	6,107	7,047	7,945	10,145
Total - Equity and liabilities	26,734	30,536	34,565	41,447
Assets				
Non-current assets				
Fixed assets	12,635	13,421	15,119	16,626
Long Term Inv	1,873	1,305	1,434	1,692
Current investment	5,205	8,813	9,684	11,426
Current assets				
Cash	775	630	903	1,874
Other Current Assets	6,246.3	6,367.3	7,425.1	9,829.3
Sub-total - Current assets	7,021	6,997	8,329	11,703
Total - Assets	26,734	30,536	34,565	41,447

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Operating Activities				
PBT	2,991	3,659	4,681	6,712
Add Depr	1,861	2,084	2,302	2,492
Others	(637)	(821)	(750)	(737)
Total	4,216	4,922	6,233	8,468
Cash Taxes	(599)	(876)	(1,123)	(1,611)
Changes in Working Cap	(447)	1,312	79	657
Cash Flow from Operations	3,170	5,358	5,188	7,514
Investing Activities				
Change in investments	(395)	(2,711)	(489)	(2,125)
Capex	(6,935)	(2,871)	(4,000)	(4,000)
Cash Flow from Investing	(7,329)	(5,581)	(4,489)	(6,125)
Financing Activities				
Dividends + Taxes paid	(483)	(725)	(967)	(1,450)
Change in Non Curr Liab	2,981.4	803.2	540.8	1,030.6
Cash Flow from Financing	2,498	78	(426)	(419)
Opening Cash	2,436.2	775.0	629.8	903.4
Changes during year	(1,661.2)	(145.2)	273.7	970.2
Closing Cash	775.0	629.7	903.4	1,873.6

Source: Company data, Arian Research

Ratio Analysis

	FY13	FY14	FY15 E	FY16 E
Profitability				
Operating EBITDA%	9.7	11.7	12.5	13.5
Operating EBIT%	5.4	6.9	7.9	9.5
PAT%	5.5	6.4	7.1	8.3
ROAE%	14.2	14.1	15.8	19.5
Du Pont ROAE breakup				
PAT / Sales	5.5	6.4	7.1	8.3
Sales / Avg Total Assets	2.0	1.6	1.7	1.9
Avg Total Assets / Avg Eqty	0.6	0.7	0.6	0.6
ROE	12.9	13.3	14.8	18.1
Other Ratios				
Current Ratio	1.1	1.0	1.0	1.2
Long Term Debt / Equity	0.09	0.09	0.08	0.08
EPS	79.2	92.1	117.8	168.9
DPS	8.0	12.0	16.0	24.0
Dividend %	160.0	240.0	320.0	480.0
Dividend Payout ratio	10.1	13.0	13.6	14.2
P/E	40.9	35.2	27.5	19.2
BVPS	610.0	689.5	788.5	929.3
P/BV	5.3	4.7	4.1	3.5

Arihant Research DeskE. research@arihantcapital.com

T. 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

E-5 Ratlam Kothi
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%

Contact

SMS: 'Arihant' to 56677

Websitewww.arihantcapital.com**Email Id**research@arihantcapital.com

**Arihant is Forbes Asia's '200 Best under a \$Bn' Company
'Best Emerging Commodities Broker' awarded by UTV Bloomberg (2011)**

Disclaimer:

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

ARIHANT capital markets ltd.

www.arihantcapital.com