

Demand recovery holds the key

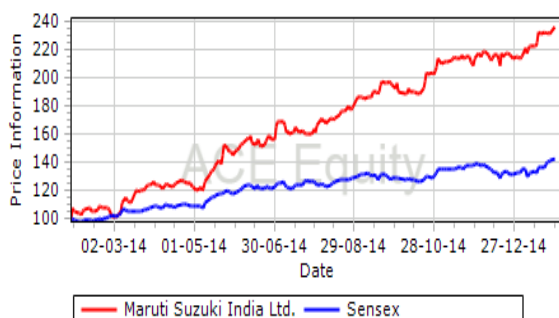
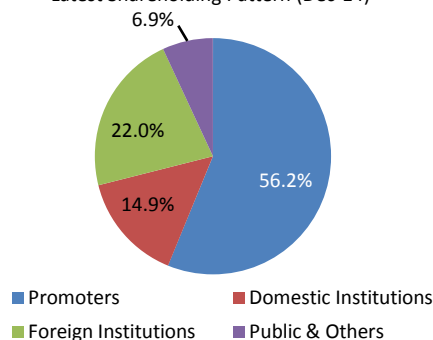
28th Jan, 2015

CMP: Rs 3,685
Target Price: Rs 3,547
Recommendation: Neutral

Stock Info	
BSE Group	A
BSE Code	532500
NSE Symbol	MARUTI
Bloomberg	MSIL IN
Reuters	MRTI.BO
BSE Sensex	29,571
NSE Nifty	8,911

Market Info	
Market Capital	Rs 1,11,323 crore
Equity Capital	Rs 151 crores
Avg Trading Volume	503700
52 Wk High / low	Rs3538/1541
Face Value	Rs 5

Latest Shareholding Pattern (Dec-14)



> **Q3 FY15 Net Revenue** at Rs 12,263 crores was largely in line with expectations. Domestic volumes increased 10.1% yoy while export volumes increased 43.8%. Thus total volumes increased by 12.4% YoY to 3,23,911 units. Blended realisations increased by 2.7% on YoY basis to Rs 3.79 lakhs.

> **Q3 FY15 Operating EBITDA** was at Rs 1,593 crores, with EBITDA margin at 12.7%. EBITDA margins increased marginally by 26 bps YoY.

Discounts stood at Rs 21,000 compared to Rs 22,000 in Q2FY15 and Rs 19,400 in Q3FY14. Discounts are near all time high.

> **Q3 FY15 Reported PAT** was at Rs 802 crores a growth 17.7% on YoY basis, and PAT margin at 6.5%.

Other highlights:

- Consumer sentiments have improved but yet to see broad based industry growth.
- Diesel share continues to decline. Diesel share has declined to 46% compared to 50% in Q2FY15 and 54% in 3QFY14.
- Discounts on diesel model have increased due to lower demand. Overall discounts remains at all time high due to increased competition from overseas players.
- Volume growth in FY15 is expected to be ~10% which implies flat volume growth in Q4FY15.
- Depreciating JPY contributed only 50bps in Q3FY15 QoQ. Full benefit will reflect in next few quarters due to hedges and lag effect.
- Current capacity for Celerio is 4000 units per month and will ramp up over next few months.
- Activity for setting up manufacturing plant in Gujarat by parent is in process.
- MSIL will have to keep launching newer models/variant to keep competition at bay.

Valuation: The stock at Rs 3,685 trades at 31.3x and 21.8x our estimated EPS of Rs 118 and Rs 169 per share for FY15E & FY16E respectively. We value the stock at 21x FY16 EPS, and assign a price target of Rs 3,547 with a "Neutral" 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)	46.5	40.0	31.3	21.8

Source: Company data, Arianth Research

P&L (in Rs crore)	Q3FY15	Q3FY14	YoY	Q2FY15	QoQ
Domestic Vehicles	2,95,202	2,68,185	10.1%	2,87,687	2.6%
Export Vehicles	28,709	19,966	43.8%	34,211	-16.1%
Total Vehicles	3,23,911	2,88,151	12.4%	3,21,898	0.6%
Net Sales	12,263	10,620	15.5%	11,996	2.2%
Oth Operating Inc	313	274		307	
Total Income	12,576	10,894	15.4%	12,304	2.2%
Total Raw Mat Cost	8,826	7,804	13.1%	8,775	0.6%
Employee Cost	375	300	25.1%	370	1.4%
Other Expenditure	1,782	1,435		1,638	
Total Expenditure	10,983	9,539	15.1%	10,783	1.9%
Operating EBITDA	1,593	1,355	17.6%	1,521	4.7%
margin %	12.7%	12.4%		12.4%	
Depreciation	628	541		599	
Op EBIT	965	813	18.6%	922	4.6%
Other Income	129	117		193	
Interest (Net)	30	45		35	
PBT	1,064	886		1,080	
Tax Provision	262	204		218	
PAT	802	681	17.8%	863	-7.0%
PAT margin	6.5%	6.4%		7.2%	
Tax rate	24.6%	23.1%		20.2%	
Basic EPS	26.55	22.55	17.7%	28.55	-7.0%

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

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

Source: Company data, Arihant Research

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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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