

Outperformer

Maruti Suzuki (MSIL)

Industry: Auto and Auto Components



Demand concerns spring up, worries to continue over some time

Q2 performance muted as expected

Maruti Suzuki India Ltd (MSIL)'s Q2 FY19 numbers came in line with our tepid expectations as volumes reflected a negative growth of 1% yoy and 1.5% qoq. High base of last year, slowdown in urban retail demand, higher fuel prices, rising interest rates, intensifying competition led to this performance. Realizations growth was flat yoy, while grew by just 2% on a slightly improved product mix. Revenues grew by 1% yoy and fell by 1.2% qoq. EBITDA margins came up at 15.3%, which were supported by Engineering Services Fees worth ₹ 2bn booked in the other operating income (excluding which the margins would have come at 14.5%). We are observing a falling margin trend from Q2 and Q3 levels of last year, predominantly because of RM prices tightening, higher discounts (average of ₹18,750 up by ₹3,500 per vehicle yoy) and currency moving adversely. Employee costs were up to 3.67% from 3.11% yoy. Other expenses were at 13.6%, higher qoq and yoy on higher marketing and advertising expenses. Below the operating levels, flattish other income, higher depreciation costs (on Gujarat plant expansion) and higher tax rate at 30.5% capped the PAT growth. Net profits came in down by 10% yoy while growing at 13% qoq at ₹22.4bn.

Demand to remain under pressure on high base and macros

MSIL witnessed a -1% growth in volumes in Q2, after posting a 24% growth in Q1. This has been a result of several macro headwinds such as rising fuel prices and interest rates, dampening sentiments, intensifying competition and floods in Kerala, Uttarakhand, and North East. Additionally, last year, same quarter witnessed a surge in volumes post GST implementation leading to high base. Exports business also saw a negative growth in the quarter on the back of import restrictions and adverse currency movement. Improving rural dynamics led to a 13% growth there but urban growth was flattish. For the festive season the management mentioned that although the demand has been flat, it has started improving and expects a positive growth at the end of it. Management also believes that the flood affected states would witness a pent up demand in the coming quarters and FY20. We believe that with upcoming new launches and new powertrains in Electric, Hybrid and CNG the company will be able to combat competition from rival launches. In anticipation of good demand from FY20 onwards again, the company is further extending its capacity expansion plans as it is coming up with Phase II at Gujarat plant (250 k capacity) by early 2019 and Phase III (250k capacity) by mid-2020. The company has maintained its volume guidance of a double digit growth which we are in line with. We have now slightly reduced our volume growth from 13%/14% to 11%/10% for FY 19E/20E respectively.

Margins to be impacted by higher discounts and adverse currency

Margins in the quarter adjusted for the one off Engineering Services Fees came in at 14.5%. Reported margins were 15.3%. Increased discounts up by ₹ 3.5K yoy were the major dampeners as the company had to spend more on marketing and advertising expenses in bland market environment. Still the realizations improved on mix tilted towards the high margin Swift, Dzire, Baleno, Brezza etc. Adverse currency movement favoring Yen appreciation led to further dip in margins. Higher RM prices are expected to continue in H2 FY19 as well as steel prices remain firm. However, reduction in JPY royalty (40% of royalty cost is now paid in INR terms relating to models like Brezza, Swift Dzire and Ignis) is a positive factor. At their Gujarat plant the vendors are rapidly setting up their plants which would increase the localization level there to Manesar plant level thus helping the margin performance. On overall basis, localization of imports have improved at 18% (5% direct imports and 13% indirect imports) from 21% yoy as a % of sales. In line with the current concerns on RM prices, currency depreciation and higher advertising expenses, we have cut our margin estimates for FY 19E/20E to 14.5%/15% respectively.

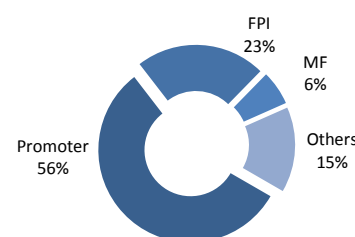
Stock Data

Current Market Price (₹)	6,725
12M Price Target (₹)	7,451
Potential upside (%)	11
BSE / NSE Symbol	532500 / MARUTI
Reuters / Bloomberg	MRTI.BO / MSIL IN
FV (₹)	5
Market Cap Full (₹ bn)	2,041
52-Week Range (₹)	10,000 / 6,502

What's Changed

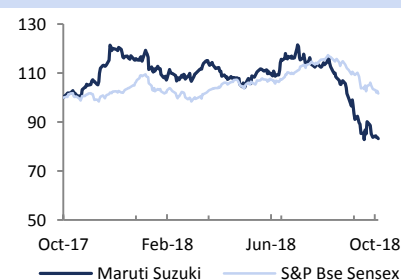
12 M Price Target (₹)	From 10,023 to 7,451
FY2019E EPS (₹)	From 314 to 294
FY2020E EPS (₹)	From 386 to 331

Shareholding Pattern



YE Mar	FY17	FY18	FY19E	FY20E
Total sales (₹ bn)	680	798	1,009	1,139
EBITDA margins (%)	15.5	15.4	14.5	15.0
PAT margins (%)	11.0	9.9	9.0	9.0
EPS (₹)	243.0	255.7	293.6	331.1
P/E (x)	27.7	26.3	22.9	20.3
P/BV (x)	5.6	4.9	4.4	3.7
EV/EBITDA (x)	19.6	16.8	14.2	12.2
ROE (%)	20.1	18.5	19.3	18.4
Dividend yield (%)	0.6	0.6	0.6	0.6

Relative Price Performance



Financial Highlights

(₹) mn	Q2 FY19	Q1 FY19	% qoq	Q2 FY18	% yoy
Total income	2,24,332	2,24,594	(0.1)	2,17,682	3.1
Raw material costs	1,52,849	1,55,020	(1.4)	1,49,780	2.0
Employee costs	7,917	7,652	3.5	6,666	18.8
Other expenses	29,253	28,411	3.0	24,461	19.6
EBITDA	34,313	33,511	2.4	36,775	(6.7)
EBITDA margins %	15.3%	14.9%	40 bps	16.9%	(160 bps)
Depreciation & Amortization	7,212	7,198	0.2	6,825	5.7
Interest expenses	257	207	24.2	150	71.3
Other income	5,266	2,718	93.7	5,229	0.7
PBT	32,110	28,824	11.4	35,029	(8.3)
Tax	9,706	9,071	7.0	10,186	(4.7)
Adjusted PAT	22,404	19,753	13.4	24,843	(9.8)
Exceptional items	-	-	NA	-	NA
Reported PAT (₹)	22,404	19,753	13.4	24,843	(9.8)

Outlook and valuation

MSIL posted a soft performance in Q2 as volumes and margins both witnessed deceleration. Volumes were impacted by macros and high base, while margins were impacted by firming up of RM costs, adverse currency and higher marketing spend. Going forward, we expect couple of quarters of tepid volume and margin performance, but post that we too expect the pent up demand from flood affected states to help volume growth. Also new launches coming from MSIL may somewhat help demand. Margins may lift up a bit on continued localization efforts, reducing royalty costs and improving product mix. Hence, though we expect pressure to continue in FY19, based on reduced FY 20E estimates we still foresee a slight upside from current levels given ~40% fall from its peak price. We cut our estimates and target price to ₹ 7,451 while maintaining our OUTPERFORMER rating on the stock.

Per unit parameters	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
Net Realisation/unit (₹)	4,29,272	4,34,448	4,34,203	4,35,629	4,45,834	4,45,983	4,44,673	4,44,508
Material Cost/unit (₹)	3,01,453	3,08,053	3,11,437	3,04,358	3,13,833	3,11,328	3,16,052	3,15,251
Employee cost per unit (₹)	15,930	14,863	16,527	13,546	16,169	17,935	15,601	16,329
EBITDA/unit (₹)	64,274	61,787	59,082	74,728	71,508	65,292	68,322	70,771
PAT/unit (₹)	45,048	41,236	39,445	50,482	49,715	40,758	40,272	46,208

Financials
Income statement

YE Mar (Rs.mn)	FY 17	FY 18	FY 19E	FY 20E
Total Revenues	6,80,348	7,97,627	10,09,026	11,39,354
Raw Material Cost	4,67,316	5,49,750	6,94,748	7,82,246
Employee Cost	23,310	28,338	36,429	46,763
Other Exp	87,228	99,915	1,35,858	1,44,479
EBITDA	1,03,530	1,20,615	1,42,591	1,66,465
EBITDA Margin(%)	15.5	15.4	14.5	15.0
Other Income	22,798	20,455	16,000	14,000
Depreciation	26,021	27,579	29,077	34,330
EBIT	1,00,307	1,13,491	1,29,514	1,46,136
EBIT Margin(%)	15.0	14.5	13.1	13.1
Interest	894	3457	1000	1200
PBT	99,413	1,10,034	1,28,514	1,44,936
PBT Margin(%)	14.9	14.1	13.0	13.0
Tax	26,036	32,816	39,839	44,930
PAT	73,377	77,218	88,675	1,00,006
PAT Margins (%)	11.0	9.9	9.0	9.0
Minority interest	0	0	0	0
Exceptional items	0	0	0	0
Adj PAT	73,377	77,218	88,675	1,00,006
Adj PAT Margins (%)	11.0	9.9	9.0	9.0

Key Ratios

YE Mar	FY 17	FY 18	FY 19E	FY 20E
Per Share Data (Rs)				
Adj. EPS	243.0	255.7	293.6	331.1
CEPS	329.1	347.0	389.9	444.8
BVPS	1206.3	1382.7	1521.7	1797.8
DPS	40.1	40.1	40.1	40.1
Growth Ratios (%)				
Total revenues	18.5	16.7	26.1	13.0
EBITDA	16.5	16.5	18.2	16.7
PAT	36.8	5.2	14.8	12.8
EPS Growth	36.8	5.2	14.8	12.8
Valuation Ratios (X)				
PE	27.7	26.3	22.9	20.3
P/CEPS	20.4	19.4	17.2	15.1
P/BV	5.6	4.9	4.4	3.7
EV/EBITDA	19.6	16.8	14.2	12.2
Operating Ratios (Days)				
Inventory days	25.5	21.0	17.5	17.0
Receivable Days	6.5	6.8	7.0	7.5
Payables day	2.6	0.5	2.3	2.1
Net Debt/Equity (x)	0.01	0.00	0.01	0.01
Profitability Ratios (%)				
ROCE	14.4	16.5	20.0	20.6
ROE	20.1	18.5	19.3	18.4
Dividend payout	16.5	15.7	13.7	12.1
Dividend yield	0.6	0.6	0.6	0.6

Source: Company, LKP Research

Balance sheet

YE Mar (Rs. mn)	FY 17	FY 18	FY 19E	FY 20E
Equity and Liabilities				
Equity Share Capital	1,510	1,510	1,510	1,510
Reserves & Surplus	3,62,801	4,16,063	4,58,031	5,41,436
Total Networth	3,64,311	4,17,573	4,59,541	5,42,946
Total debt	0	0	0	0
Net Deferred Tax	4,662	5,589	6,589	7,889
Other long term liabilities	11,050	15,853	19,853	21,353
Long term provisions	219	265	565	865
Current Liab & Prov				
Short term borrowings	4,836	1,108	6,108	6,508
Other current liabilities	39,265	42,743	45,743	48,743
Trade payables	83,673	1,04,259	1,18,743	1,22,011
Total provisions	4,490	6,311	8,311	9,811
Total Equity & Liabilities	5,12,506	5,93,701	6,65,452	7,60,126
Assets				
Net block	1,29,197	1,30,473	1,46,396	1,80,066
Capital WIP	12,523	21,259	26,259	29,259
Intangible Assets	3,730	3,117	4,117	5,117
Non current Investments	2,63,022	3,40,729	3,79,729	4,19,729
Other non current assets	238	326	326	326
Total fixed assets	21,788	12,173	15,673	20,673
Current investments				
Cash and Bank	138	711	453	1,022
Inventories	32,622	31,608	33,310	36,433
Trade receivables	11,992	14,618	18,891	22,877
Loan, Advances & others	25	30	985	1,113
Other current assets	21,197	20,074	17,730	18,927
Total current Assets	87,762	79,214	87,042	1,01,046
Total Assets	5,12,503	5,93,701	6,65,452	7,60,126

Cash Flow

YE Mar (Rs mn)	FY 17	FY 18	FY 19E	FY 20E
PBT	99,413	1,10,034	1,28,514	1,44,936
Depreciation	26,021	27,579	29,077	34,330
Interest	522	3,457	1,000	1,200
Chng in working capital	21,940	28,058	14,898	-666
Tax paid	-23,173	-30,550	-39,839	-44,930
Cash flow from operations (a)	1,02,793	1,17,850	1,01,938	1,33,553
Capital expenditure	-32,498	-38,918	-50,000	-71,000
Chng in investments	-58,760	-45,046	-42,500	-45,000
Other investing activities	-521	1,143	-3,232	-3,232
(Inc)/dec inIntangible assets	-1,225	265	-1,000	-1,000
(Inc)/dec in Other non curr assets	129	200	-3,000	-3,000
Cash flow from investing (b)	-91,779	-82,821	-95,732	-1,19,232
Free cash flow (a+b)	11,014	35,029	6,206	14,321
Equity raised/(repaid)	0	0	0	0
Inc/dec in borrowings	4,836	1,108	9,300	2,200
Dividend paid (incl. tax)	-12,725	-27,268	-11,600	-11,600
Other financing activities	-3,404	-8,300	-4,127	-4,327
Cash flow from financing (c)	-11,293	-34,460	-6,427	-13,727
Net chng in cash (a+b+c)	-279	569	-221	594
Closing cash & cash equivalents	130	699	453	1,022

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