

Maruti Suzuki India

28 January 2019

Reuters: MRTI.BO; Bloomberg: MSIL IN

Weak Performance

Maruti Suzuki India's (MSIL's) 3QFY19 earnings were 14% below our estimate because of weak margins on account of higher discounts, higher advertisement spending during the quarter and also higher input costs. EBITDA margin at 9.8% fell ~600bps YoY and ~550bps QoQ, and was ~380 bps below our estimate. Volume for the quarter fell 1% YoY on weak demand and inventory correction. Net sales at Rs196.7bn grew 2% YoY on a 1% YoY fall in volume. Net realisation at ~Rs459,000 fell 1% QoQ because of higher discount during the quarter, which stood at Rs24,300/vehicle versus Rs18,750/vehicle in 2QFY19 as the company cleared inventory because of weak festive demand. Following higher discount and also higher input prices, raw material costs, as a percentage of sales, increased ~300bps QoQ. Absolute EBITDA at Rs19.3bn fell 36% YoY, and was 28% below our estimate. Other income at Rs9.2bn was up 274% YoY and 74% QoQ. Lower EBITDA led to PAT of Rs14.9bn, down 17% YoY and 14% below our estimate. The management, in the post-result conference call, indicated that demand outlook hasn't improved significantly, although the company expects to do better than the industry in FY19. Rural sales now account for 39% of overall volume and have grown faster than urban sales. The company believes that a good monsoon and recent hike in minimum support price (MSP) for food grains along with the fall in fuel prices should help volume growth in the coming months. Recent launches of new versions of Ertiga and Wagon R have been well received in the market, with Ertiga having an order book of 55,000 units and Wagon R receiving 14,000 bookings. We have cut our volume estimates for FY19/FY20 FY21 by 5%/6%/7%, respectively, as demand continues to remain weak. As regards margins, we have cut our margin estimates by 245bps/95bps/90bps for FY19/FY20/21, respectively, to factor in higher input costs and also higher discount following softening of demand. Our earnings estimates for FY19/FY20/21 stand reduced by 15%/13%/14%, respectively, because of lower margins. We have downgraded our rating on MSIL to Accumulate (from Buy earlier) with a revised target price of Rs7,040 (23x September 2020E EPS) from Rs8,124 earlier.

Demand softens and discount increases: MSIL's volume during the quarter witnessed a 1% decline because of softening demand and inventory correction resulting in lower production. The management indicated that demand outlook hasn't improved significantly, but there is a slight positive bias on outlook following a good monsoon, hike in MSP for food grains, fuel price correction and demand for new models. The company launched two new models - Ertiga and Wagon R - and both have been well received in the market, with Ertiga commanding a waiting period of 28 weeks (order book of 55,000 vehicles) and Wagon R receiving bookings for 14,000 vehicles. December was a strong month for retail sales because of higher discount and promotions resulting in clearing of inventory which declined to 15 days versus a normal run-rate of 4-5 weeks. We have cut our volume estimates by 5%/6%/7% for FY19/FY20/21, respectively. We have factored in 7%/8%/8% volume growth estimates for FY19/FY20/FY21, respectively, as we believe that on the back of new vehicle launches FY20/FY21 should be better than FY19.

Stock valuation: MSIL stock price has witnessed a sharp correction in the past one month, down ~14% on fears of demand slowdown and rising discounts. In 3QFY19, the company surprised with weaker-than-expected margins which fell ~600bps YoY and ~550bps QoQ because of higher discounts and also higher input costs. Discounts are expected to moderate from 4QFY19 onwards, while low inventory and recent new launches will result in slightly better despatches in the coming months. We have downgraded our rating on the stock to Accumulate (from Buy earlier) with a revised target price of Rs7,040 (23x September 2020E EPS), implying 8% upside from the current level.

Y/E March (Rsmn)	3QFY18	2QFY19	3QFY19	YoY (%)	QoQ (%)
Net revenues	1,92,832	2,24,332	1,96,683	2.0	(12.3)
Raw material costs	1,33,323	1,52,849	1,40,437	5.3	(8.1)
Staff costs	6,869	7,917	8,811	28.3	11.3
% of sales	3.6	3.5	4.5	92	95
Gross profit	59,509	71,483	56,246	26.3	(3.9)
Gross margin (%)	30.9	31.9	28.6	(226bps)	(327bps)
Other expenses	22,262	29,253	28,124	26.3	(3.9)
Total expenditure	1,62,454	1,90,019	1,77,372	9.2	(6.7)
EBITDA	30,378	34,313	19,311	(36.4)	(43.7)
EBITDAM (%)	15.8	15.3	9.8	(594bps)	(548bps)
Depreciation	6,890	7,212	7,677	11.4	6.4
Interest costs	263	257	206	(21.7)	(19.8)
Other income	2,449	5,266	9,173	274.6	74.2
PBT	25,674	32,110	20,601	(19.8)	(35.8)
Tax	7,684	9,706	5,708	(25.7)	(41.2)
Effective tax rate (%)	29.9	30.2	27.7	(222bps)	(252bps)
Net profit	17,990	22,404	14,893	(17.2)	(33.5)
NPM (%)	9.3	10.0	7.6	(176bps)	(241bps)
EPS (Rs)	59.6	74.2	49.3	(17.2)	(33.5)

Source: Company, Nirmal Bang Institutional Equities Research

ACCUMULATE

Sector: Automobile

CMP: Rs6,513

Target Price: Rs7,040

Upside: 8%

Gaurant Dadwal

Research Analyst

gaurant.dadwal@nirmalbang.com

+91-22-6273 8145

Vivek Sarin

Research Associate

vivek.sarin@nirmalbang.com

+91-22-6273 8176

Key Data

Current Shares O/S (mn)	302.1
Mkt Cap (Rsbn/US\$bn)	1,967.6/27.7
52 Wk H / L (Rs)	9,929/6,412
Daily Vol. (3M NSE Avg.)	823,331

Price Performance (%)

	1 M	6 M	1 Yr
Maruti Suzuki India	(13.5)	(33.3)	(29.8)
Nifty Index	1.1	(3.2)	(2.6)

Source: Bloomberg

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Revenues	6,80,348	7,97,627	8,79,957	9,70,420	10,87,047
YoY (%)	18.2	17.2	10.3	10.3	12.0
EBITDA	1,03,517	1,20,615	1,06,079	1,36,375	1,53,312
EBITDA (%)	15.2	15.1	12.1	14.1	14.1
PAT	73,502	77,218	74,101	87,693	97,188
YoY (%)	37.0	5.1	(4.0)	18.3	10.8
EPS (Rs)	243.4	255.7	245.4	290.4	321.8
RoE (%)	22.2	19.8	17.1	18.4	18.2
RoCE (%)	22.5	22.7	17.3	20.1	20.4
P/E (x)	26.6	25.3	26.4	22.3	20.1
EV/EBITDA (x)	18.7	16.1	18.2	14.2	12.6
EV/Sales (x)	2.8	2.4	2.2	2.0	1.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

(Rsmn)	New estimates			Old estimates			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Volume	19,03,959	20,56,346	22,21,741	19,96,206	21,95,593	23,92,694	(4.6)	(6.3)	(7.1)
Net sales	8,79,957	9,70,420	10,87,047	9,26,069	10,37,991	11,71,838	(5.0)	(6.5)	(7.2)
EBITDA	1,06,079	1,36,375	1,53,312	1,34,160	1,55,458	1,75,809	(20.9)	(12.3)	(12.8)
EBITDA margin (%)	12.1	14.1	14.1	14.5	15.0	15.0	(245)bps	(95)bps	(90)bps
PAT	74,101	87,693	97,188	86,686	1,00,401	1,12,929	(14.5)	(12.7)	(13.9)
EPS (Rs)	245.4	290.4	321.8	287	332.5	373.9	(14.5)	(12.7)	(13.9)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Deviation of our estimates from actual performance in 3QFY19

(Rsmn)	Actual performance	Our estimate	Deviation
	3QFY19	3QFY19	%
Net sales	1,96,683	1,98,504	(0.9)
EBITDA	19,311	26,997	(28.5)
Net profit	14,893	17,242	(13.6)

Source: Nirmal Bang Institutional Equities Research

Key Conference-call Highlights:

- Volume:** MSIL's volume growth during the quarter stood at (0.6%) because of weak market conditions. The company's Ertiga and Wagon R models have received a favourable response with Ertiga registering bookings for over 55,000 vehicles and a waiting period of 28 weeks, while Wagon R registered over 14,000 bookings. Festive season sales have been flat YoY and the management expects the outlook to remain subdued. Retail sales on YTD basis grew 4.9% YoY. Industry sales in FY19 are likely to grow 4.5%, while MSIL is expected to outperform industry growth.
- Exports:** Revenues from exports stood at Rs11,580mn against Rs14,270mn in 2QFY19. Indonesia market demand has been sluggish and exports next year are likely to remain flat YoY.
- Geographic mix:** The rural market, contributing 39% to sales, has grown faster compared to the urban market, growing 13% versus flattish sales growth in urban market.
- Royalty:** In 3QFY19, royalty payment stood at 5.5% against 5.7% of sales in the preceding quarter.
- Operating margin:** EBITDA margin contracted ~600bps YoY on account of the rise in commodity prices (~80bps impact), adverse foreign exchange movement and higher sales promotion expenses (~100bps impact), but partially offset by cost-reduction efforts (30bps impact) and VA-VE exercise. Higher staff costs YoY were on account of wage revision and a provision for variable pay that was made last year. Marketing expenditure was up Rs780mn sequentially because of the launch of new models.
- Price hike:** MSIL went for price hikes in order to pass on some pressure of higher input costs to customers.

- **Commodity prices:** Raw material prices witnessed an uptick, but the same have begun softening to some extent.
- **Others:** The company's inventory level with dealers as of end-December 2018 stood at close to 15 days.
- **Discount per vehicle:** During the quarter, average discount increased sharply QoQ and stood at Rs24,300/vehicle against Rs18,750/vehicle in 2QFY19. YTD discount stood at Rs19,200/vehicle.

Exhibit 4: P/E & EV/EBITDA charts



Source: Nirmal Bang Institutional Equities Research



Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 5: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	6,80,348	7,97,627	8,79,957	9,70,420	10,87,047
% growth	18.2	17.2	10.3	10.3	12.0
Raw material costs	4,66,280	5,48,759	6,29,432	6,72,235	7,54,585
Staff costs	23,310	28,338	31,455	34,601	38,407
Other expenses	87,241	99,915	1,12,991	1,27,209	1,40,743
Total expenditure	5,76,831	6,77,012	7,73,878	8,34,045	9,33,735
EBITDA	1,03,517	1,20,615	1,06,079	1,36,375	1,53,312
% growth	16.5	16.5	(12.1)	28.6	12.4
EBITDA margin (%)	15.2	15.1	12.1	14.1	14.1
Other income	23,001	20,455	24,955	24,980	25,005
Interest costs	894	3,457	1,053	1,662	1,607
Gross profit	2,14,068	2,48,868	2,50,525	2,98,185	3,32,462
% growth	13.3	16.3	0.7	19.0	11.5
Depreciation	26,021	27,579	27,064	36,183	39,825
Profit before tax	99,603	1,10,034	1,02,918	1,23,511	1,36,885
% growth	33.8	10.5	(6.5)	20.0	10.8
Tax	26,101	32,816	28,817	35,818	39,697
Effective tax rate (%)	26.2	29.8	28.0	29.0	29.0
Net profit	73,502	77,218	74,101	87,693	97,188
% growth	37.0	5.1	(4.0)	18.3	10.8
Reported net profit	73,502	77,218	74,101	87,693	97,188
% growth	37.0	5.1	(4.0)	18.3	10.8
EPS (Rs)	243.4	255.7	245.4	290.4	321.8
% growth	37.1	5.1	(4.0)	18.3	10.8
DPS (Rs)	35.0	75.0	77.8	92.9	104.6
Payout (%)	14.4	29.3	31.7	32.0	32.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Equity	1,510	1,510	1,510	1,510	1,510
Reserves	3,62,801	4,16,063	4,48,993	5,02,809	5,61,878
Net worth	3,64,311	4,17,573	4,50,503	5,04,319	5,63,388
Net deferred tax liabilities	4,662	5,589	5,589	5,589	5,589
LT liabilities/provisions	11,269	16,118	16,118	16,118	16,118
Short-term loans	4,836	1,108	1,108	1,108	1,108
Long-term loans	-	-	-	-	-
Total loans	4,836	1,108	1,108	1,108	1,108
Liabilities	3,85,078	4,40,388	4,73,318	5,27,134	5,86,203
Gross block	1,86,595	2,14,239	2,64,239	3,01,739	3,39,239
Depreciation	53,668	80,649	1,07,713	1,43,895	1,83,721
Net block	1,32,927	1,33,590	1,56,526	1,57,844	1,55,518
Capital work-in-progress	12,523	21,259	21,259	21,259	21,259
Long-term investments	2,63,022	3,40,729	3,40,929	3,79,729	4,46,729
Other long-term assets	16,272	18,907	18,907	20,407	21,907
Inventories	32,622	31,608	35,413	44,208	49,492
Debtors	11,992	14,618	16,526	23,404	26,201
Cash	138	711	1,231	2,895	4,536
Liquid Investments	21,788	12,173	18,173	18,173	18,173
Other current assets	21,222	20,104	25,120	27,670	30,977
Total current assets	87,762	79,214	96,464	1,16,350	1,29,379
Creditors	83,673	1,04,970	1,08,131	1,14,253	1,27,909
Other current liabilities/provisions	43,755	48,341	52,637	54,201	60,680
Total current liabilities	1,27,428	1,53,311	1,60,767	1,68,454	1,88,589
Net current assets	(39,666)	(74,097)	(64,303)	(52,105)	(59,210)
Total assets	3,85,078	4,40,388	4,73,318	5,27,134	5,86,203

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
EBIT	1,00,497	1,13,491	1,03,970	1,25,173	1,38,492
(Inc./dec. in working capital)	21,940	28,058	(3,273)	(12,036)	7,247
Cash flow from operations	1,22,437	1,41,549	1,00,697	1,13,137	1,45,739
Other income	22,763	21,307	24,955	24,980	25,005
Other expenses	312	579	-	-	-
Depreciation	26,021	27,579	27,064	36,183	39,825
Tax paid	23,214	30,550	28,817	35,818	39,697
Net cash from operations	1,02,793	1,17,850	73,989	88,522	1,20,862
Capital expenditure	(33,723)	(38,653)	(50,000)	(37,500)	(37,500)
Net cash after capex	69,070	79,197	23,989	51,022	83,362
Other investment activities	(58,056)	(44,168)	5,870	(13,920)	(42,095)
Cash from financial activities	(11,293)	(34,460)	(29,326)	(35,439)	(39,625)
Opening cash balance	391	138	711	1,231	2,895
Closing cash balance	112	707	1,243	2,895	4,536
Change in cash balance	(279)	569	532	1,663	1,642

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

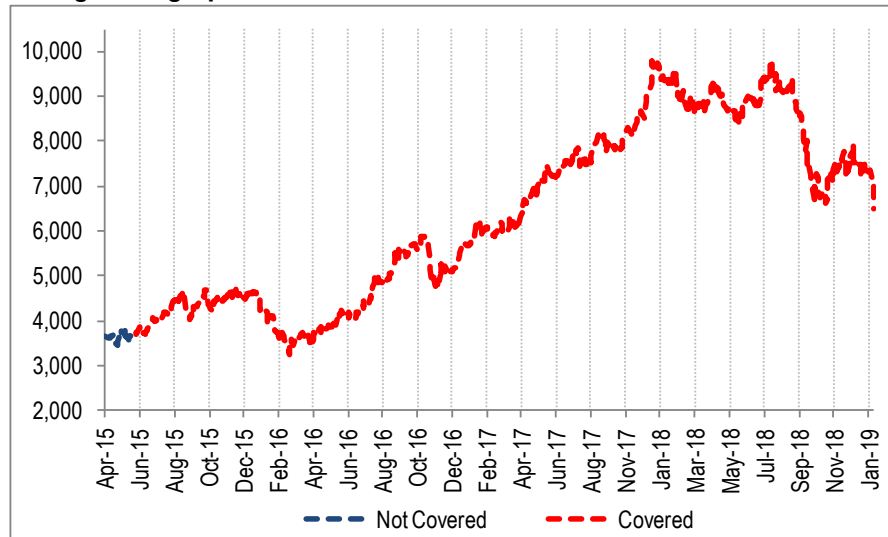
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Profitability & return ratios					
EBITDA margin (%)	15.2	15.1	12.1	14.1	14.1
EBIT margin (%)	11.4	11.7	9.0	10.3	10.4
Net profit margin (%)	10.8	9.7	8.4	9.0	8.9
RoE (%)	22.2	19.8	17.1	18.4	18.2
RoCE (%)	22.5	22.7	17.3	20.1	20.4
Working capital & liquidity ratios					
Receivables (days)	7	6	7	9	9
Inventory (days)	17	15	15	17	17
Payables (days)	50	51	51	50	50
Current ratio (x)	0.7	0.5	0.6	0.7	0.7
Quick ratio (x)	0.4	0.3	0.4	0.4	0.4
Valuation ratios					
EV/Sales (x)	2.8	2.4	2.2	2.0	1.8
EV/EBITDA (x)	18.7	16.1	18.2	14.2	12.6
P/E (x)	26.6	25.3	26.4	22.3	20.1
P/BV (x)	5.4	4.7	4.3	3.9	3.5

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 May 2015	Buy	3,693	4,355
9 July 2015	Accumulate	3,948	4,355
9 October 2015	Accumulate	4,353	4,559
28 October 2015	Accumulate	4,497	4,878
11 January 2016	Accumulate	4,272	4,878
29 January 2016	Buy	4,100	4,805
27 April 2016	Buy	3,872	4,479
27 July 2016	Accumulate	4,471	4,694
28 October 2016	Buy	5,860	6,869
27 January 2017	Accumulate	5,803	6,464
03 February 2017	Accumulate	5,990	6,688
28 April 2017	Accumulate	6,374	7,012
28 July 2017	Accumulate	7,600	7,882
30 October 2017	Accumulate	8,114	8,640
29 January 2018	Accumulate	9,300	10,152
30 April 2018	Buy	8,783	10,091
27 July 2018	Buy	9,396	10,783
26 October 2018	Buy	6,723	8,124

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010