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Rating	BUY
Price	Rs8,778
Target Price	Rs10,706
Implied Upside	22.0%
Sensex	34,970
Nifty	10,692

(Prices as on January 25, 2018)

Trading data

Market Cap. (Rs bn)	2,650.9
Shares o/s (m)	302.0
3M Avg. Daily value (Rs m)	5091.8

Major shareholders

Promoters	56.21%
Foreign	25.81%
Domestic Inst.	11.00%
Public & Other	6.99%

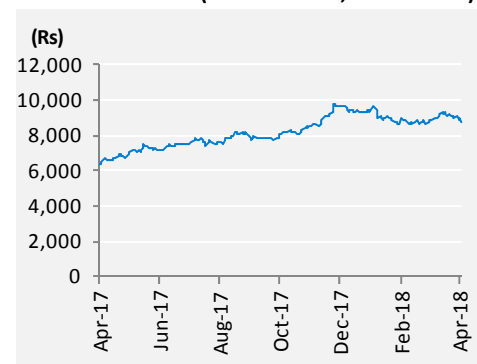
Stock Performance

(%)	1M	6M	12M
Absolute	(1.0)	8.2	34.5
Relative	(6.4)	2.7	18.1

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	357.4	334.7	6.8
2020	411.8	398.7	3.3

Price Performance (RIC: MRTI.BO, BB: MSIL IN)



Source: Bloomberg

Maruti Suzuki's Q4FY18 EBITDA grew by ~18% YoY to Rs30.2bn (below our estimates) and EBITDA margin came in at 14.2%, up 20bp YoY but lower 160bps QoQ (PL 15.8%). However, operating margins for the quarter were impacted by higher freight expenses to the tune of Rs1.8bn, royalty charges being higher by ~Rs1bn on account of unfavourable Yen movement (royalty rates for Q4FY18 stood at 5.7% as against 5.4% for FY18) and higher advertisement costs owing to Auto Expo'18 held in Jan'18 as well as new Swift launch costs. Accounting for the freight adjustment, margins stand at 15.1%.

Revenue for the quarter grew 15.4% YoY to Rs211.7bn, ahead of expectations at Rs210bn, on the back of 10.3% YoY volume growth and 2.6% YoY improvement in realisations. Higher share of new products in the sales mix helped the growth in revenues. Finance costs for Q4FY18 was however significantly higher at Rs2,731mn. Of this, ~Rs2500mn was paid as a one-off expense towards the pending land charges at Manesar. Adjusting for the same, with somewhat higher tax rate, adjusted net profit for MSIL stood at Rs20.6bn, up 20% YoY (PL: Rs21bn).

Valuation: reiterate Buy: Maruti Suzuki continues to gain market share (500bp to 50% over FY15-FY18) and further intensifying its hold on the domestic PV market with successful product launches, underlines MSILs strong competitive position. Despite managements stated production constraints, we expect MSIL not to miss out on demand due to supply constraints and overproduce from its stated production capacity (as achieved historically) on back of operational efficiency. We marginally increase our volume estimate by 2%/1.4% for FY19/20. However, we slightly cut our EBITDA margins by ~70bps for FY19/20 to factor in commodity costs pressure and ramp up related costs for the Gujarat plant. We value the stock at 26x Mar20e and arrive at a target price of Rs10,705 and maintain MSIL as "Buy".

Key financials (Y/e March)

	2017	2018	2019E	2020E
Revenues (Rs m)	680,348	797,627	1,007,804	1,127,146
Growth (%)	18.2	17.2	26.4	11.8
EBITDA (Rs m)	103,517	120,615	158,920	181,183
PAT (Rs m)	74,538	77,218	107,927	124,349
EPS (Rs)	246.8	255.7	357.4	411.8
Growth (%)	37.0	3.6	39.8	15.2
Net DPS (Rs)	75.0	90.0	100.0	101.0

Profitability & Valuation

	2017	2018	2019E	2020E
EBITDA margin (%)	15.2	15.1	15.8	16.1
RoE (%)	22.6	19.8	23.6	22.9
RoCE (%)	22.3	20.1	23.6	22.9
EV / sales (x)	3.9	3.3	2.6	2.3
EV / EBITDA (x)	25.7	22.0	16.6	14.5
PE (x)	35.6	34.3	24.6	21.3
P / BV (x)	7.3	6.3	5.4	4.5
Net dividend yield (%)	0.9	1.0	1.1	1.2

Source: Company Data; PL Research

- MSIL's total income grew 15.4% YoY to Rs211.7bn (above exp of ~Rs210bn). This was on the back of 10.3% YoY volume growth and 2.6% YoY improvement in realizations.
- EBITDA growth was 17.8% YoY to Rs30.2bn (PLe: Rs33bn), with EBITDA margin at 14.2%, inching up 20bps YoY but lower 160bps QoQ. This was mainly on account of other expenses being higher 90bps YoY / 240bps QoQ while gross margins have improved 170bps YoY. Staff costs as a % of sales were higher 50bps YoY.
- However, adjusting for the higher freight expenses amounting to Rs1.8bn, operating margin comes in at 15.1% (PLe:15.8%).
- The company has mentioned that adverse exchange variation and hardening commodity prices have had an impact on margins which was partially offset by cost reduction efforts.
- With finance cost significantly higher at Rs2,731mn in Q4FY18 as against Rs226mn in Q4FY17 (of which ~Rs2500mn was paid as a one-off expense towards the land charges due at Manesar) and somewhat higher tax rate (at 28.6% v/s 25.1% over Q4FY17), net profit for MSIL stood at Rs18.8bn, up 10% YoY (PLe: Rs21bn) while adjusting for the one-off, profit was up 20% YoY at Rs20.6bn.

Conference call highlights:

- Discounts for the quarter stood at INR13,880 in Q4FY18 v/s INR17,900 in Q3FY18.
- Diesel : Petrol mix for MSIL for the quarter was at 29:71.
- MSIL's finance penetration for Q4FY18 was at its highest at 80.5%.
- Export revenue for the quarter stood at Rs16.25bn.
- Gujarat plant production for the quarter was at 58k units (during Q3FY18, it was 36K units). For FY19 contribution from the plant is expected be at 250k. Second line is on track and expected to be ready by January 2019.
- Rural growth continues to be robust up ~15% YoY over FY18, with MSIL rural penetration at 36%. Rural growth as well as penetration is expected to remain at these levels for FY19.
- Capex for FY18 was at Rs34bn, of which Rs7.9bn was towards land. Capex guidance for FY19E stands at Rs50bn, of which 10bn is expected to be towards land.
- Commodity cost increase impact was ~1% for O4FY18 while for FY18, the total impact was ~Rs7bn. Management expects commodity cost pressures to continue.
- Management has guided for double digit growth in FY19, outgrowing industry growth expected at 8-9%.

Exhibit 1: Q4FY18 Result Overview (Rs m)

Y/e March	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY17	FY18	FY17	YoY gr. (%)
Net Revenues	2,11,656	1,83,334	15.4	1,92,832	7,97,627	6,79,857	17.3
Raw Materials	1,43,763	1,27,669	12.6	1,33,323	5,49,750	4,66,684	17.8
<i>% of Net Sales</i>	<i>67.9%</i>	<i>69.6%</i>		<i>69.1%</i>	<i>68.9%</i>	<i>68.6%</i>	
Personnel	8,282	6,160	34.4	6,869	28,338	23,310	21.6
<i>% of Net Sales</i>	<i>3.9%</i>	<i>3.4%</i>		<i>3.6%</i>	<i>3.6%</i>	<i>3.4%</i>	
Manufacturing & Other Exp	29,461	23,910	23.2	22,262	98,924	86,856	13.9
<i>% of Net Sales</i>	<i>13.9%</i>	<i>13.0%</i>		<i>11.5%</i>	<i>12.4%</i>	<i>12.8%</i>	
Total Expenditure	1,81,506	1,57,739	15.1	1,62,454	6,77,012	5,76,850	17.4
EBITDA	30,150	25,595	17.8	30,378	1,20,615	1,03,007	17.1
<i>EBITDA Margin (%)</i>	<i>14.2%</i>	<i>14.0%</i>		<i>15.8%</i>	<i>15.1%</i>	<i>15.2%</i>	
Depreciation	7,025	7,010	0.2	6,890	27,579	26,039	5.9
EBIT	23,125	18,585	24.4	23,488	93,036	76,968	20.9
Interest Expenses	231	226	2.2	263	957	894	7.0
Non-operating income	5,950	4,491	32.5	2,449	20,455	23,417	(12.6)
PBT	26,344	22,850	15.3	25,674	1,10,034	99,491	10.6
Tax-Total	7,523	5,745	30.9	7,684	32,816	26,052	26.0
<i>Tax Rate (%) - Total</i>	<i>28.6%</i>	<i>25.1%</i>	<i>13.6</i>	<i>29.9%</i>	<i>29.8%</i>	<i>26.2%</i>	<i>13.9</i>
Reported PAT	18,821	17,105	10.0	17,990	77,218	73,439	5.1
Adj. PAT	20,571	17,105	20.3	17,990	78,968	73,439	7.5

Source: Company Data, PL Research

Exhibit 2: Operating Metrics (Rs m)

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY17	9MFY18	9MFY17	YoY gr. (%)
Car Sales Volume (no.s)	4,61,773	4,14,439	11.4	4,31,112	17,79,574	15,68,603	13.4
Net Realisation/Vehicle	4,58,355	4,42,366	3.6	4,47,290	4,48,212	4,33,416	3.4
Material cost / vehicle	3,11,328	3,08,052	1.1	3,09,254	3,08,922	2,97,516	3.8
Gross Profit / vehicle	1,47,027	1,34,314	9.5	1,38,036	1,39,290	1,35,900	2.5
Employee cost /vehicle	17,935	14,863	20.7	15,933	15,924	14,860	7.2
Other expenses / vehicle	63,800	57,692	10.6	51,639	55,589	55,372	0.4
EBITDA/vehicle	65,292	61,758	5.7	70,464	67,777	65,668	3.2
Net Profit/vehicle	44,548	41,273	7.9	41,729	44,375	46,818	(5.2)

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Net Revenue	680,348	797,627	1,007,804	1,127,146
Raw Material Expenses	467,316	549,750	705,463	789,002
Gross Profit	213,032	247,877	302,341	338,144
Employee Cost	23,310	28,338	33,297	39,124
Other Expenses	86,205	98,924	110,124	117,836
EBITDA	103,517	120,615	158,920	181,183
Depr. & Amortization	26,021	27,579	27,078	28,138
Net Interest	(514)	2,453	(238)	(314)
Other Income	23,001	19,464	21,683	23,796
Profit before Tax	100,639	110,034	153,742	177,136
Total Tax	26,101	32,816	45,815	52,786
Profit after Tax	74,538	77,218	107,927	124,349
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	74,538	77,218	107,927	124,349
Avg. Shares O/S (m)	302.0	302.0	302.0	302.0
EPS (Rs.)	246.8	255.7	357.4	411.8

Cash Flow Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
C/F from Operations	127,969	136,752	117,749	153,789
C/F from Investing	(119,229)	(107,631)	(75,000)	(105,000)
C/F from Financing	(9,000)	(28,541)	(31,271)	(31,900)
Inc. / Dec. in Cash	(260)	580	11,478	16,889
Opening Cash	391	131	711	12,189
Closing Cash	131	711	12,189	29,079
FCFF	227,793	125,328	79,210	107,442
FCFE	231,855	121,600	79,160	107,392

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
Revenue (%)	18.2	17.2	26.4	11.8
EBITDA (%)	16.2	16.5	31.8	14.0
PAT (%)	37.0	3.6	39.8	15.2
EPS (%)	37.0	3.6	39.8	15.2
Profitability				
EBITDA Margin (%)	15.2	15.1	15.8	16.1
PAT Margin (%)	11.0	9.7	10.7	11.0
RoCE (%)	22.3	20.1	23.6	22.9
RoE (%)	22.6	19.8	23.6	22.9
Balance Sheet				
Net Debt : Equity	—	—	—	—
Net Wrkng Cap. (days)	(33)	(42)	(26)	(26)
Valuation				
PER (x)	35.6	34.3	24.6	21.3
P / B (x)	7.3	6.3	5.4	4.5
EV / EBITDA (x)	25.7	22.0	16.6	14.5
EV / Sales (x)	3.9	3.3	2.6	2.3
Earnings Quality				
Eff. Tax Rate	25.9	29.8	29.8	29.8
Other Inc / PBT	22.9	17.7	14.1	13.4
Eff. Depr. Rate (%)	13.9	14.2	11.7	10.2
FCFE / PAT	311.1	157.5	73.3	86.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	361,711	417,573	495,300	589,147
Total Debt	4,836	1,108	1,058	1,008
Other Liabilities	4,640	5,589	5,589	5,589
Total Liabilities	371,187	424,270	501,947	595,744
Net Fixed Assets	145,415	133,590	147,771	164,633
Goodwill	—	—	—	—
Investments	282,284	352,902	382,902	442,902
Net Current Assets	(56,512)	(83,481)	(53,725)	(36,790)
<i>Cash & Equivalents</i>	131	711	12,189	29,079
<i>Other Current Assets</i>	77,251	85,239	124,596	142,155
<i>Current Liabilities</i>	133,894	169,431	190,511	208,024
Other Assets	—	—	—	—
Total Assets	371,187	424,270	501,927	595,744

Quarterly Financials (Rs m)

Y/e March	Q2FY18	Q3FY18	Q4FY18	Q3FY18E
Net Revenue	217,682	192,832	211,656	196,103
EBITDA	36,775	30,378	30,150	31,051
<i>% of revenue</i>	16.9	15.8	14.2	15.8
Depr. & Amortization	6,825	6,890	7,025	6,984
Net Interest	150	263	2,731	218
Other Income	5,229	2,449	5,950	5,978
Profit before Tax	35,029	25,674	26,344	29,828
Total Tax	10,186	7,684	7,523	8,203
Profit after Tax	24,843	17,990	18,821	21,625
Adj. PAT	24,843	17,990	18,821	21,625

Key Operating Metrics

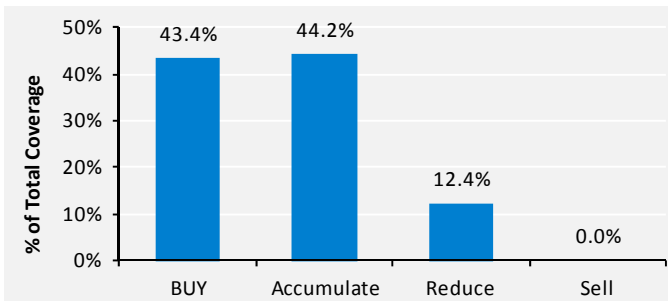
Y/e March	2017	2018	2019E	2020E
Total volumes (units)	1,568,603	1,779,574	2,001,479	2,210,187
Realisation per unit (Rs)	426,554	438,896	494,252	500,568
Gross margin per unit (Rs)	135,810	139,290	151,059	152,993
EBITDA per unit (Rs)	65,333	67,221	78,783	81,234
Profit per unit (Rs)	46,858	43,391	53,924	56,262

Source: Company Data, PL Research.

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BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
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Trading Sell	:	Over 10% absolute decline in 1-month
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