

22<sup>nd</sup> April 2020

## Maruti Suzuki-BUY

**CMP** :Rs.5150  
**Target Price** :Rs.6304  
**Upside** : 22%+  
**Stop Loss** :Rs.4768 (Closingbasis)

### Investment Thesis

Maruti Suzuki has outperformed the industry for the sixth year in a row in FY18 as it grew by 13.8% (excluding LCV) against 7.9% of industry. It has achieved leadership position across all three industry segments - passenger car, utility vehicle and vans. The management is confident of double-digit growth for Maruti Suzuki going ahead on the back of robust order book of ~1,10,000 units with waiting period for key models like Baleno, Swift, Dzire and Brezza and new launch pipeline like new Swift and refreshed Ertiga, Ciaz as well as Wagon-R in FY19E against a weak launch pipeline of competitors that will allow Maruti Suzuki to maintain its current market share of ~50%. Maruti Suzuki is also aggressive in expansion of its dealer network to tap growth in tier-II and tier-III cities, where growth has been healthy against top-10 cities, which are showing weak demand. Continuous shift towards petrol cars in the industry is also augurs well for Maruti Suzuki as petrol vehicles contribute ~72% of its product.

FY19 was a difficult year for the domestic automobile space with growthchallenging, particularly in H2FY19. Demand sentiments were subdued due to a constant increase in fuel, insurance as well as finance costs. For FY19, total domestic salesgrowth in the automobile space were at 5.2% YoY wherein PV volumes wereat 33.8 lakh units, up 2.7% YoY. Maruti Suzuki in FY19 clocked domestic volumes of17.3 lakh units, up 5.3% YoY and maintained its market leadership with 51.2% market share, up 120 bpsYoY. Maruti Suzuki was at the forefront of PV OEMs in terms of BS-VI compliant vehiclelaunches, introducing new emission norms compliant Baleno and Altomodels at a price increase of ~Rs.15,000-20,000/unit. Auto industry is trading at its historical law due to increase in price owing to change in emission norms and regulatory changes. However MSIL will be a direct beneficiary once the Industry demand shoots up. Q1FY21 could be the best time to accumulate quality stocks, based on a scenario that world will revert after lockdown.

### Financials

- During the past 5 years, revenue of Maruti Suzuki grew at a CAGR of 13.9% while PAT grew at a CAGR of 21.8% in the same period.

Consol. (Rs.Mn.)	FY17	FY18	FY19	FY20E	FY21E
Revenue	7,61,561	8,03,488	8,30,385	9,54,943	10,98,184
EBITDA	1,03,581	1,20,634	1,10,032	1,26,537	1,45,517
% growth	13.6	16.5	-8.8	15.0	15.0
PAT	75,099	78,800	76,491	87,506	1,00,194
EPS (INR)	248.7	260.9	253.3	289.8	331.8
P/E (x)	23.9	22.8	23.5	20.5	17.9
RoE (%)	20.8%	18.9%	16.6%	17.2%	18.0%

### Stock Data

Market Cap (Rs. cr)	1,51,040
Market Cap (\$ Mn)	19873
Shares O/S (in cr)	30
Avg. Volume (3 month)	890,000
52-Week Range (Rs.)	4002/ 7755

### Shareholding Pattern

Promoters	56.21%
FII's	22.30%
Institutions	13.41%
Others (incl. body corporate)	8.08%

Performance (%)	1M	6M	1Yr
Absolute	-14.7%	-20.6%	-36.6%
BSE Auto	-7.6%	-14.8%	-31.8%

### Key Ratios

Div Yield	1.3%
TTM PE	23.5x
ROE	16.6%
TTM EPS (Rs.)	253.3/-

- Maruti Suzuki's ASP grew by 2.4% QoQ to Rs.452,311 mainly due to 37.8% QoQ decline in discounts to Rs.15,125 in the marketplace and a change in product mix.
- EBITDA of Maruti Suzuki came in at Rs.22,634mn, decline of 24.9% YoY in Q4FY19. As a result, EBITDA margin also decrease by 370bps to 10.5% due to higher raw material costs, initial costs associated with new plant ramp up as well as higher other expenses.

## Key Business Highlights

- Maruti Suzuki is engaged in the manufacture, purchase and sale of automobile vehicles, components and spare parts. It has 5 plants located at Gurgaon and Manesar in Haryana and Mehsana in Gujarat with an installed capacity of over 1.5mn vehicles per year.
- Maruti Suzuki's product portfolio includes Alto 800, Alto K10, Wagon R, Celerio, Ritz, Swift, Dzire, Ertiga, Omni, Eeco, Gypsy and Ciaz.
- Maruti Suzuki's other service offerings include Maruti Finance, True Value, Maruti Genuine Parts, Maruti Genuine Accessories, Maruti Suzuki Auto Card and Maruti Driving School.

## Valuation

- Maruti Suzuki has recently launched upgraded Swift and Dzire and received an overwhelming response from its customers, which is reflected in waiting period of 8-14 weeks. In addition to this, the earlier models Baleno and Brezza also continue to command a waiting period of 15-16 weeks. On the basis the strong response for the launches, Maruti Suzuki has maintained its market share in passenger vehicle industry in FY19. As a result, Maruti Suzuki is ramping up its capacity at the Gujarat plant to produce 250,000 units in FY19E as against 154,000 in FY18. We expect it to continue outpacing industry growth and clock double-digit volume growth in FY20-21E.
- Maruti Suzuki has reached an agreement with its parent wherein the royalty on all new models starting with Ignis (launched in January 2017) will be in rupee denominated and due credit for R&D work carried out by Maruti Suzuki will also be recognized. This will result in lower royalty payout by Maruti Suzuki. Its royalty payments for Q4FY19 declined to 5.0% as compared to 5.8% in FY17, with ~40% models has moved to new royalty system. With further new launches, the royalty payment is expected to come down further and help to improve margin in the years to come.
- Suzuki is planning to grow Maruti Suzuki as a low-cost brand to target markets such as Africa. Maruti Suzuki is already contributing ~45% to Suzuki's global profits. Currently, exports form ~6.4% of total sales for Maruti Suzuki. We believe, the decline in volumes in the Sri Lankan market is expected to be offset by growth in export of Baleno.
- With leadership position in passenger cars, expansion of its dealer network to tap growth in tier-II and tier-III cities, discounting will come down with new launches, ramping up capacity at the Gujarat plant and royalty in rupee denominated & due credit for R&D work, we value Maruti Suzuki at 18.5x FY21E EPS of Rs.331.80 to arrive at target price of Rs.6304, an upside of 25%.

## Risk & Concern

- Automobile industry is directly related to domestic economic growth and good monsoon and may impact due to slow economic growth and weak monsoon in the country.
- Stiff competition from domestic players in automobile segment may impact Maruti Suzuki's performance.
- Any regulatory hurdle like, increase in GST on passenger vehicles or increase in taxes on fuel may have negative impact on demand.

## Graphs & Charts

Figure 1: Net Sales Trend

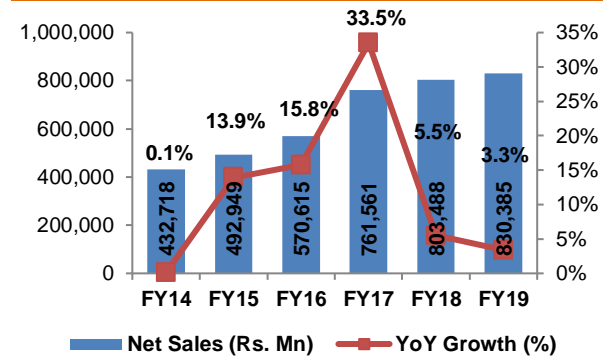


Figure 2: EBITDA & EBITDA Margin Trend

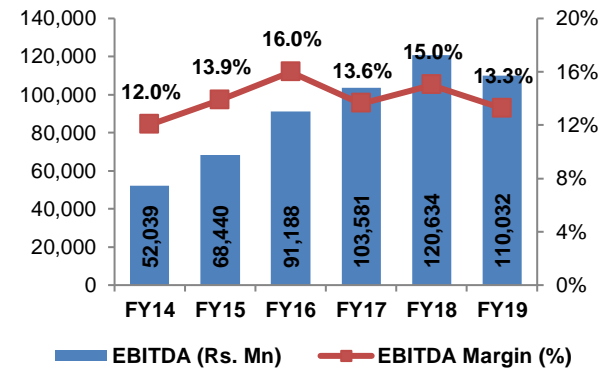


Figure 3: PAT Trend

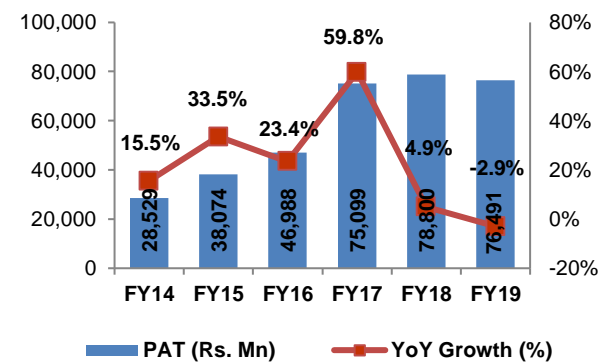
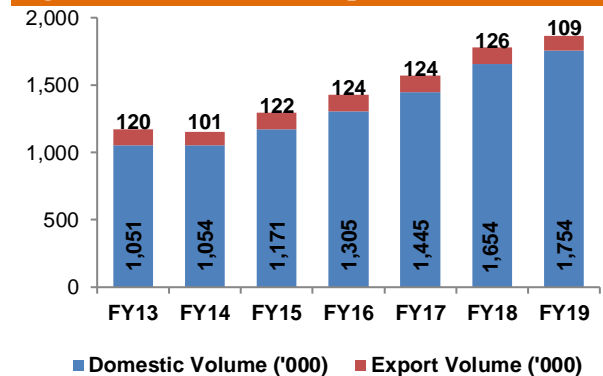


Figure 4: Domestic and Export Volume Trend



Name	Designation
Jitendra Upadhyay	Research Analyst

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Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063

Web site: <https://www.bonanzaonline.com>

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| CDSL: a) 120 33500 |

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