

Maruti Suzuki

Reco: Buy

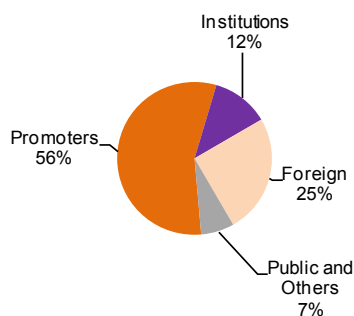
Recent correction provides attractive entry point; maintain Buy with price target of Rs6,430

CMP: Rs5,150

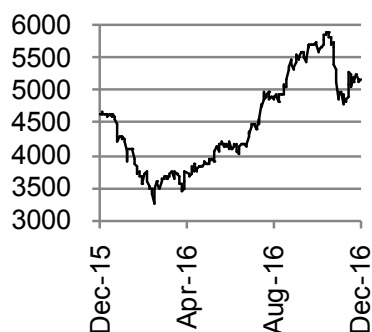
Company details

Price target:	Rs6,430
Market cap:	Rs155,573 cr
52-week high/low:	Rs5,972/3,202
NSE volume: (No of shares)	7.1 lakh
BSE code:	532500
NSE code:	MARUTI
Sharekhan code:	MARUTI
Free float: (No of shares)	13.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.6	-3.1	25.7	16.0
Relative to Sensex	1.0	2.7	23.4	7.2

Key points

- Demonetisation to moderate PV industry growth in near term:** The Government's decision to ban high value notes (Rs500 and Rs1,000) impacted the Passenger Vehicle (PV) industry demand in November 2016. As against the industry growth rate of 11% in April-October 2016, the PV industry growth decelerated to 2% in November 2016. Cash-based transactions account for ~30% of the PV sales and are likely to be affected due to the liquidity crunch. We believe that the liquidity situation is likely to normalise at the beginning of FY2018, having a near-term impact on PV industry volumes. We expect the PV industry growth to be flattish during December 2016 to March 2017. Consequently, for FY2017, we expect the PV industry growth to moderate to 7%.
- Maruti maintains FY2017 volume target despite demonetisation due to higher proportion of financing and waiting period on recent launches:** Maruti Suzuki India (Maruti) has maintained its FY2017 volume target of 1.55 million units (implying a domestic market volume growth of 9%) despite the demonetisation move. The proportion of financing in Maruti's overall sales is ~80%, which is higher than the PV industry average of ~65-70%. As a result, the impact of demonetisation on Maruti sales is likely to be relatively lower. Further, the recent launches (Baleno and Brezza; contribute ~15% to overall volumes) have a waiting period of around six months, which provides further cushion to the company's volume growth. Also, Maruti has indicated that inventory at dealers' end is normal (about four weeks) and it is not planning any cut in production in the wake of demonetisation.
- FY2018 to be a better year, Maruti to outpace PV industry growth:** FY2018 is likely to be a better year for Maruti, as pent-up demand due to demonetisation-driven deferment is likely to result in strong growth going forward. Also, the new Gujarat plant is on track and would commence operations in March 2017. The Gujarat plant will have an initial capacity of 2.5 lakh units per annum and would initially manufacture the Baleno premium hatchback. Further, Maruti would introduce two new products, viz Ignis (compact car) and new Dzire (with smart SHVS technology) in the next 3-4 months. New products and high order backlog for the recent launches (Baleno and Brezza) would enable Maruti to outpace the PV industry growth in FY2018. We expect Maruti to report a volume growth of 12% in the domestic market in FY2018.
- Recent correction provides attractive entry point; maintain Buy with unchanged price target of Rs6,430:** The demonetisation move is unlikely to have any material impact on Maruti's volumes given the higher proportion of financing and waiting period on recent launches. Further, FY2018 would see higher volume growth, driven by the expected resurgence in demand post demonetisation and planned new launches. We had included Maruti in our special demonetisation report dated November 24, 2016, and recommend investors to accumulate the stock in a staggered manner post the recent correction (the stock has corrected by ~10% post demonetisation). Maruti is among our preferred picks in the automotive space. We have reduced our earnings estimates by 6%/7% for FY2017/FY2018 on the back of the recent demonetisation move. We reiterate our 'Buy' rating on Maruti with an unchanged price target of Rs6,430.

Valuation

Particulars	FY15	FY16	FY17E	FY18E	Rs cr FY19E
Net sales	49,971	57,746	66,648	77,219	85,687
Growth (%)	14.3	15.6	15.4	15.9	11.0
EBITDA	6,703	8,979	10,769	12,238	13,267
EBIDTA (%)	13.4	15.5	16.2	15.8	15.5
PAT	3,711	4,571	7,538	8,245	8,892
Growth (%)	33.4	23.2	64.9	9.4	7.8
FD EPS (Rs)	122.9	151.3	249.6	272.9	294.3
P/E (x)	41.9	34.0	20.6	18.9	17.5
P/B (x)	6.6	5.8	4.8	4.1	3.5
RoE (%)	15.7	18.0	23.4	21.7	20.1
RoCE (%)	20.5	24.8	31.0	28.9	26.9
EV/Sales (x)	3.1	2.7	2.1	1.7	1.5
EV/EBITDA (x)	22.8	17.3	12.7	10.8	9.5



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