

# Maruti Suzuki

**CMP: INR 1681**
**TP: INR 2200**
**BUY**

## **MARUTI SUZUKI: Market share continues, demand seen flat YoY in Apr-13, seasonal discounts reduction by 20-25% MoM**

(MSIL IN, Mkt Cap USD9.4b, CMP INR1,681, TP INR2,200, 31% upside, Buy)

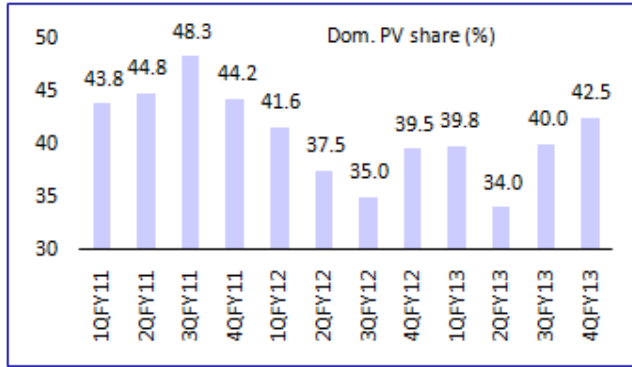
We interacted with industry participants in the passenger vehicle space to get an update on Maruti Suzuki's (MSIL) retail demand trends, discounts, inventory levels etc. Key takeaways:

- While industry volumes continue to remain under pressure, MSIL is estimated to report flat retail and wholesale dispatches for Apr-13.
- MSIL has been gaining market share as:
  - 1) Customers shift towards established brands during uncertain times,
  - 2) Strength of its experienced network and wide product portfolio,
  - 3) Higher market share in the petrol segment (now recovering),
  - 4) CNG offerings in key markets (gaining traction over last few months), and
  - 5) Higher exposure to relatively strong rural market (15% growth in FY13, 28% of sales volumes).
- Our industry interaction indicates that while MSIL is internally expecting industry growth of 5-6%, it is targeting 10-12% growth for itself in FY14 volumes.
- While waiting period for popular models of Swift & Dzire have reduced on higher supplies, our channel checks indicate there are no cash discounts on Swift/Dzire. Contrary to street expectations, Dzire still commands an average waiting of 1 month, though in metros/urban markets it is available off the shelf due to higher competitive pressures.
- While Honda has garnered healthy bookings for its recent launch of compact sedan Amaze, our channel checks (even with Honda dealers) indicate that there are concerns on its interiors, NVH (on diesel variant), lower pick-up compared to Dzire. While Amaze could perform reasonably well due to its pricing, looks and Honda badge, it may not significantly impact Dzire volumes.
- While MSIL has not implemented a price hike in Apr-13, there has been seasonal reduction in discounts in Apr-13 by 20-25% compared to Mar-13 levels.
- Expect flat domestic wholesale dispatches at 88k units in Apr-13 (v/s 90k Apr-12). Channel inventory expected to be at 4 weeks by end of Apr-13.

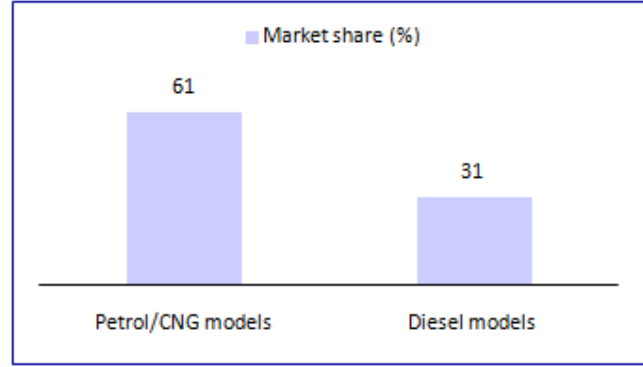
### **While industry volumes continue to remain under pressure, MSIL is estimated to report flat retail and wholesale dispatches for Apr-13.**

- The overall economic scenario and consequent consumer sentiments continues to remain challenging.
  - However, our channel checks indicate that MSIL has been performing relatively better than the PV Industry. Over the last few months, MSIL has been consistently gaining market share.
  - Our channel interaction indicates that petrol car segment is witnessing higher consumer interest with recent diesel de-regulation and continuous news flow on diesel price hike.
  - Sustained increase in diesel prices could lead to meaningful shift towards petrol segment, as per dealers. This would be beneficial to MSIL given its high exposure towards petrol segment (entry level cars) and high discounts on petrol.
- Expect flat domestic wholesale dispatches at 88k units in Apr-13 (v/s 90k Apr-12). Channel inventory expected to be at 4 weeks by end of Apr-13.

MSIL's market share have been on a rising trend



MSIL has higher market share in petrol segment



### MSIL internally targeting 10-12% growth in FY14 volumes, higher than industry volume growth expectation of 5-6%

- While MSIL expects domestic industry volume growth of 5-6% in FY14, it is internally targeting higher than industry growth at 10-12% in FY14 volumes.
- MSIL has been gaining market share as 1) Customers shift towards established brands during uncertain times, 2) Strength of its experienced/extensive network and wide product portfolio, 3) Higher market share in the petrol segment (now recovering), 4) CNG offerings in key markets of Delhi/Mumbai (gaining traction over last few months), and 5) Higher exposure to relatively strong rural market (15% growth in FY13, 28% of sales volumes).

### Waiting period for popular diesel models have reduced on higher supplies; Contrary to street expectations, Dzire still commands an average waiting of 1 month

- Strong response to new model launches (Swift, Dzire, Ertiga), shift of preference towards diesel variants (due to differential fuel pricing) and lock-out at Manesar led to huge order backlog for diesel variants of popular models for MSIL.
- Post the normalization of Manesar operations, MSIL has been focusing on increasing the supply of diesel variants of such popular models.
- This has led to reduction in waiting period for diesel variants of Swift/Dzire and almost NIL for Ertiga, while petrol variants of Swift/Dzire had come under waiting list for few months.
- Our channel interaction indicates that waiting period for Swift/Dzire have reduced over the last few months on higher supplies.
- However, Dzire continues to command a waiting period of average 1 month, though in metros/urban markets it is available off the shelf on higher supplies (due to relatively higher competitive pressures).
- Despite declining waiting period, our channel checks indicate there are no cash discounts on Swift/Dzire.

### Honda Amaze unlikely to impact Dzire volumes meaningfully

- While Honda has garnered healthy bookings for its recent launch of compact sedan Amaze, our channel checks (even with Honda dealers) indicate that there are concerns on its interiors, NVH (on diesel variant), lower pick-up compared to Dzire.
- While Amaze could perform reasonably well due to its pricing, looks and Honda badge, it may not significantly impact Dzire volumes.

- While based on a product-to-product comparison, Dzire is the key competitor to Amaze, on a brand-to-brand comparison, we expect other players (particularly Toyota Etios) to be relatively more impacted.

**Amaze’s dashboard lacks appeal**



**Honda Amaze targets 50,000 units in FY14**

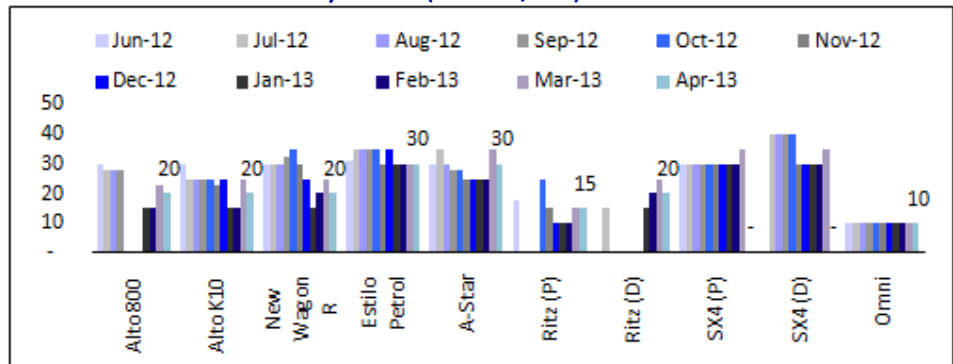
Diesel (entry level variant)	Price *	Engine (Ltr)	Power/Weight (BHP/Ton)	Boot Space (Ltrs)	3m avg. volumes
Honda Amaze	600,000	1.5	93	400	
Maruti Dzire	599,500	1.3	70	316	18,485
Toyota Etios	670,743	1.4	67	460	3,480
Chevrolet Sail	629,000	1.3	69	370	1,598
M&M Verito	630,577	1.4	57	510	1,249
Tata Manza	599,975	1.3	74	460	2,247
Hyundai i20	5,99,899	1.4	73	295	7,749

\* Ex-showroom Delhi

**Discounts in Apr-13 have been lowered by 20-25% compared to Mar-13 levels.**

- While MSIL has not implemented a price hike in Apr-13, there has been seasonal reduction in discounts in Apr-13 compared to Mar-13 levels.
- Our channel interaction indicates that discounts have been reduced by 20-25% across models MoM.
- On an average, discounts have been reduced by INR5,000/unit on key models.

**Indicative discount trend on key models (INR '000/unit)**



Source: Pune based dealer

**Valuation and view**

- Post 4QFY13 results, we upgraded our FY14/15E Consol. EPS by 14.7%/6.5% to INR114.8/INR138.9 and Cash EPS by 7.5%/3.3% to INR187.7/INR220.1 respectively, to factor in benefits from localization efforts, currency hedges at favorable rates and normalization of discounts.
- We expect MSIL to register volume growth of 6.8%/14% in FY14E/FY15E (FY12-15E CAGR of 8.1%, FY11-15E CAGR of 3%). We expect EBITDA margins of 12.2%/12.4% for FY14E/FY15E respectively, including SPIL financials.
- Operating environment for MSIL is gradually improving with a) initial signs of demand recovery particularly for petrol cars, b) discount stabilization, c) favorable currency movement and c) possibly permanent solution to industrial relationship problem (with conversion of temp workers to permanent and liberal wage hikes).
- Volume revival, discount reduction and further diesel engine availability (expected from Sep-13) would be key catalyst for operating/ stock performance, apart from favorable Fx movement.
- Valuation at 14.6x/12.1x FY14E/15E consol EPS and 9.0x/7.6x FY14E/15E Cash EPS looks attractive.  
Maintain Buy with price target of INR2,200 (~10x FY15 CEPS/15.8x FY15 consol EPS).

**Financial & Valuation (INR b)**

Y/E MARCH	2013E	2014E	2015E
Sales	435.9	481.3	556.7
EBITDA	42.3	58.6	68.9
Adj. PAT	23.9	34.3	42.0
Consol adj. EPS (INR)	80.2	114.8	138.9
EPS Growth (%)	37.8	43.2	21.0
BV/Share (INR)	615.0	715.7	840.7
RoE (%)	12.9	15.9	16.5
RoCE (%)	15.5	19.5	20.3
Payout (%)	10.1	9.7	8.6
<b>Valuation</b>			
P/E (x)	21.0	14.6	12.1
P/CE (x)	11.9	9.0	7.6
EV/EBITDA (x)	10.5	7.2	5.6
Div. Yield (%)	0.5	0.7	0.7

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