4 February 2019

Update | Sector: Automobiles

Maruti Suzuki

BSE SENSEX	S&P CNX
36,583	10,912

MARUTI SUZUKI
Way of Life!

CMP: INR6,968 TP: NR8,131 (+17%) Buy

Worst is over, expect improvement hereon

Resumption of product actions | Best positioned to tide over regulatory actions

Stock Info

Bloomberg	MSIL IN
Equity Shares (m)	302
M.Cap.(INRb)/(USDb)	2104.9 / 29.3
52-Week Range (INR)	9923 / 6324
1, 6, 12 Rel. Per (%)	-6/-23/-27
12M Avg Val (INR M)	5646
Free float (%)	43.8

Financials Snapshot (INR b)

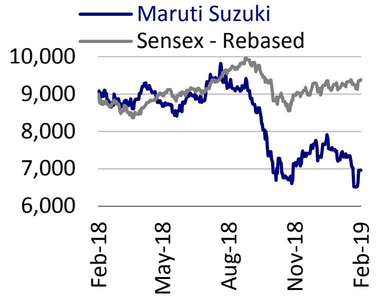
Y/E Mar	2019E	2020E	2021E
Net Sales	856.5	953.1	1,074.7
EBITDA	111.5	130.7	152.8
PAT	72.7	86.2	104.7
Cons. EPS (INR)	244.8	291.8	353.5
Gr. (%)	-8.2	19.2	21.2
BV/Sh (INR)	1,508	1,643	1,821
RoE (%)	16.3	17.4	19.0
RoCE (%)	22.7	24.6	26.6
P/E (x)	28.5	23.9	19.7
P/BV (x)	4.6	4.2	3.8

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	56.2	56.2	56.2
DII	13.4	13.4	11.0
FII	22.7	22.8	25.8
Others	7.7	7.6	7.0

FII Includes depository receipts

Stock Performance (1-year)



- **PVs – demand deferment and not destruction:** Our channel checks suggest that demand in 2HCY18 was impacted by a confluence of factors like higher fuel prices, higher interest rates, insurance cost increase and the lack of major new product launches. A comparison with other consumer discretionary items like paints and adhesives – where volumes have been sustainably strong – suggests that the recent weakness in passenger vehicle (PV) demand was largely a function of financing issues. We, thus, believe that PV demand is being deferred and not destructed. In our view, correction in fuel prices, resolution of liquidity issues and upcoming new product launches are likely to drive a recovery in PV demand over the next few months.
- **MSIL's product action to resume after a relatively dry year**: One of the reasons for MSIL's weak volumes in 2HCY18 was the lack of new product launches in CY18 and the benefit of the strong Baleno and Brezza order book already being realized in 1HCY18. However, CY19 appears more promising for MSIL with several launches (New WagonR, Vitara, New Alto and Future S Concept) lined up over the next 12-15 months.
- **Best placed auto OEM to tide through multiple regulatory changes:** India's PV industry would be faced with several regulatory actions starting Apr'19, including mandatory ABS, airbags, rear parking sensors and BS6. We, nevertheless, believe that MSIL would be the least impacted auto OEM (incl. non-PV OEMs) due to its (a) lower cost of compliance (e.g. only 1% higher cost for compliant new WagonR), (b) lesser contribution from diesel fuel (which will witness highest cost inflation under BS6) and (c) focus on CNG and hybrids to mitigate the impact of BS6.
- **Several levers in place to help sustain long-term margins in 13-15% range:** In our view, EBITDA margins should sustain at 13-15%, driven by (a) a further improvement in the product mix, (b) a reduction in discounts as the contribution from new product launches increases, (c) execution of modular platform strategy by FY21/22, (d) ramp-up at the more profitable Gujarat plant, (e) reducing royalty with increasing contribution of India to R&D, (f) a further increase in localization and (g) operating leverage. We expect MSIL's EBITDA margin to expand by 120bp (over FY19-21E) to ~14.2% in FY21.
- **Valuation view:** We believe that the operating performance has bottomed out in 3QFY19, and expect a gradual recovery from 4QFY19 and a revival in the EBITDA margin to 14% level by 2HFY20. The current price largely factors in most of the headwinds, and any further correction will be a very attractive entry point to gain exposure to a strong franchisee facing secular growth opportunity. We value MSIL at 23x Mar'21E core EPS, based on a two-stage dividend discount model, which is in line with the five-year average P/E (~17% premium to 10-year LPA). The stock trades at 23.9x/19.7x FY20E/21E EPS. Maintain **Buy** with a TP of INR8,131.

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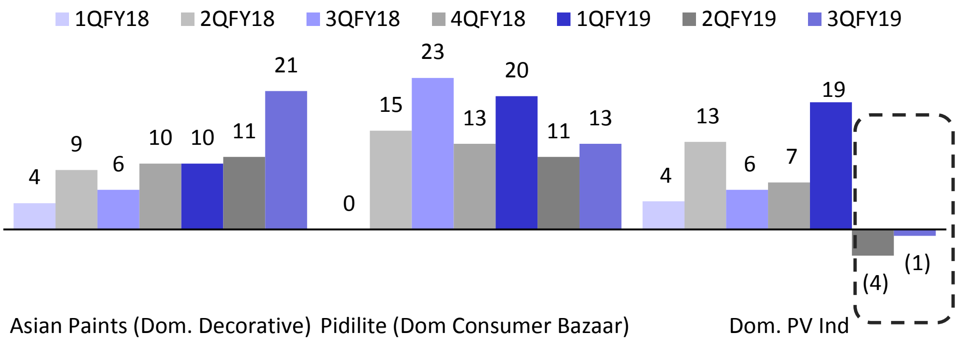
"Customer sentiment is impacted because a number of small factors, slightly hardening of interest rates, fuel prices going up, insurance, he has to shell out close to INR14k-15k more for a vehicle. So, all these factors put together are leading to a sort of, say, subdued sentiment. Inquiries are fine. It's just the demand closure which is getting deferred basically."
Mr Kalsi, Senior Executive Director, Marketing & Sales, Maruti Suzuki

PV industry witnessing demand deferment and not destruction

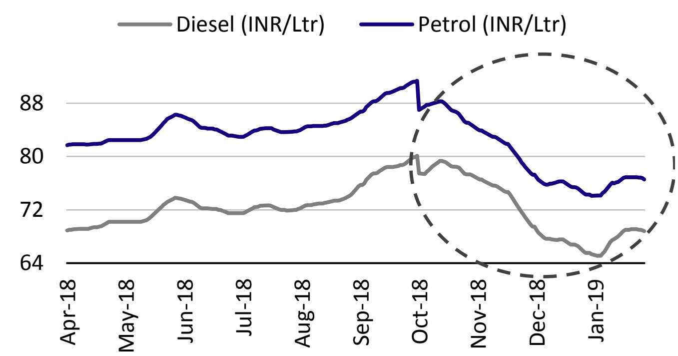
- PV industry demand has been under stress since July 2018 (domestic PV volumes down by ~2.5% in 2HCY18) due to a convergence of factors like higher fuel prices, higher interest rates, insurance cost increase and the lack of major new product launches.
- While fuel prices have cooled off by ~13% from the recent peaks, liquidity issues are yet to be fully resolved. Considering ~80% of vehicles sold are financed, interest rates and availability of finance play a critical role in PV demand.
- A comparison with other consumer discretionary items like paints and adhesives suggests that the recent weakness in PV demand was largely due to financing issues. Volumes for Asian Paints and Pidilite have grown in healthy double-digits in 2HCY18 compared to a decline of ~2.5% for domestic PVs.
- The above factors make us believe that demand for PVs is being deferred and not destructed. The correction in fuel prices, resolution of liquidity issues and upcoming new product launches should lead to a recovery in PV demand over the next few months.

Exhibit 1: Unlike PVs, other consumer discretionary categories witnessed strong volume growth in 2HCY18, suggesting the impact of liquidity issues on PV demand



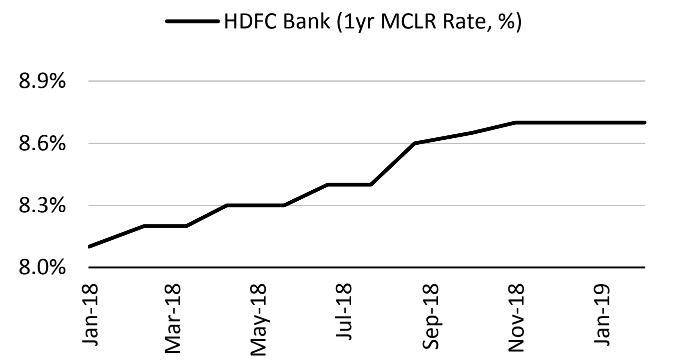
Source: Company, SIAM, MOSL

Exhibit 2: Fuel price correction of ~13% from the peak is yet to boost PV demand



Source: Bloomberg, MOSL

Exhibit 3: Interest rates have inched up by 50-70bp over the last few months



Source: RBI, MOSL

Feedback from our channel checks on trends influencing PV demand

- **On what is impacting demand from replacement/second car buyers:** A customer who bought car 4-5 years back is now seeing relatively higher interest rates. Thus, there has been a postponement in the replacement decisions. Of the 100 inquiries, ~45% customers postponed their purchase decisions by at least three months, citing reasons like higher interest rates, insurance costs and fuel price.

- **On impact of financing:** Majority of multi-car owners or buyers of cars priced over INR750k belong to the MSME segment. The concern here is around availability of finance for their business. There is deferment of replacement demand.
- **On rural markets:** Not all rural market buyers are farmers or from the farm ecosystem. 30% of rural sales are from the farm ecosystem. In some markets, government employee buyers are as high 66% of total volumes. Post Pay Commission hike, a boost from government employee demand would be visible for 18 months.
- **On first time buyer (FTB) uptrading:** Over the last 18 months, 46% of Swift buyers were FTB. Increasing affordability is resulting in jumping segments by FTB. Similar trends are also visible in rural markets.

MSIL's product action to resume after a relatively dry year

"There is a trend that whenever we launch a new model, the bookings certainly there is an increase. So, we got a good pipeline of bookings, particularly when we have launched the two models in the recent past. So, bookings are good."
Mr Kalsi, Senior Executive Director, Marketing & Sales, Maruti Suzuki

- One of the reasons for weaker volumes for MSIL in 2HCY18 has been no new product launches in CY18 and also as the benefit of strong order book for Baleno and Brezza was realized in 1HCY18.
- CY18 had practically just one launch of New Swift, as New Ertiga was launched only on 14th Nov'18 (post festive season). However, CY19 appears more promising for MSIL with several launches lined up over the next 12-15 months.
- Based on our interaction with industry sources, we expect the following brand launches over next 12-15 months – Vitara (mid-size SUV competing with Hyundai's Creta) and a model based on Future S Concept (Micro-SUV, concept displayed at Auto Expo 2018).
- Also, two of MSIL's entry-level models – WagonR (Jan-19) and Alto (by Sep'19) – would see full platform upgrade. These upgrades would be relevant as the entry-level segment (Mini) has witnessed product fatigue. Also, both these models would see substantial upgrade on the safety norms as they comply with the upcoming regulations on mandatory airbags, ABS and crash test norms, among others.

Exhibit 4: Post 2013, 2018 was the first year of no new brand launch for MSIL…

Model Name	Launch Year	Segment
Ertiga	2012	UV1
Alto 800	2012	Mini
Celerio	2014	Compact
Ciaz	2014	Mid-Size
S-Cross	2015	UV1
Baleno	2015	Compact
Vitara Brezza	2016	UV1
Ignis	2017	Compact
New Dzire	2017	Compact
New Swift	2018	Compact
New Ertiga	2018 (Nov)	UV1

Source: Company, MOSL

Exhibit 5: …however, it has multiple new launches lined over the next two years

Model	Segment	Timeline	Pricing (INR M)
New WagonR	Mini	Feb-19	
Vitara	SUV	1HCY19	0.95-1.5
New Alto	Mini	2HCY19	
Future S Concept	Micro SUV	2HFY20	0.5-0.75

Note: Highlighted models are new brand launches, others are full upgrades; Source: Industry, MOSL

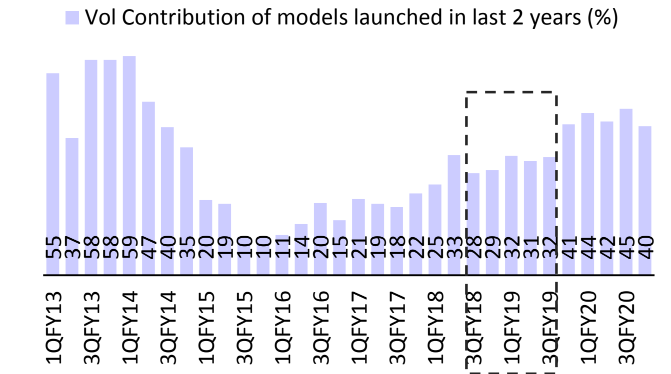
Exhibit 6: Vitara SUV expected to be launched in India in 1HCY19

Source: Company, MOSL

Exhibit 7: Micro SUV based on Future S Concept expected to be launched in 2HFY20

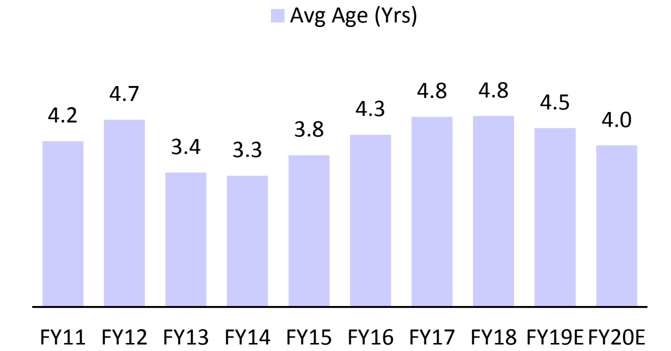
Source: Company, MOSL

Exhibit 8: Worst of fatigue in product portfolio behind



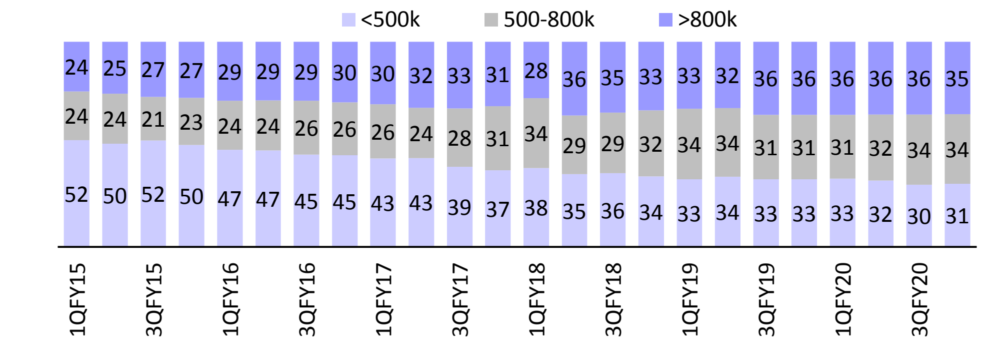
Source: SIAM, MOSL

Exhibit 9: Product refresh to result in a decline in average portfolio age



Source: SIAM, MOSL

Exhibit 10: MSIL's product mix should improve from 4QFY19 (INR/unit)



Source: SIAM, MOSL

Best-placed auto OEM to tide through multiple regulatory changes

- India's PV industry would be witnessing several regulatory actions starting Apr'19. Some of the notable regulatory actions are:
  - Mandatory ABS from April 2019
  - Mandatory airbags from July 2019
  - Mandatory rear parking sensors from July 2019
  - BS6 norms from Apr'20
  - CAFÉ 2 norms in 2022

- These regulatory norms would not only result in a substantial increase in cost for consumers, but also pose a threat to the competitive positioning of OEMs with a diesel-heavy portfolio.
- We, nevertheless, believe that MSIL would be the least impacted auto OEM (incl. non-PV OEMs) due to:
  - Economies of scale enabling localization and lower unit cost for ABS, airbags, etc. For example, New WagonR (launched in Jan-19) complies with the upcoming safety norms of mandatory airbag, ABS and crash test, but the increase in the price of this entry-level vehicle is just ~1% (over outgoing model).
  - Lesser contribution from diesel models – ~27% of volumes for MSIL v/s ~37% for the industry. Diesel models would see a 10-12% increase in cost for BS6 compliance as against up to 4% for petrol.
  - Focus on alternative fuel (CNG) and hybrid vehicles to mitigate the impact of BS6.

Exhibit 11: Regulatory roadmap and timelines for PVs

Regulation	Date	Remarks
Safety Norms	1-Apr-19	❖ Mandatory ABS with EBD for all new cars from Apr 2018 and existing cars by Apr 2019
Safety Norms	1-Jul-19	❖ Mandatory driver side airbag, a seatbelt reminder for driver & co-driver, a speed warning system, and rear parking sensors
Safety Norms	1-Oct-19	❖ Crash test norms compliance (full-frontal impact, offset-frontal impact and lateral/side impact)
Emission Norms	1-Apr-20	❖ BS6 norms
Emission Norms	CY2022	❖ CAFE 2 norms require cars to be 30% or more fuel efficient from 2022

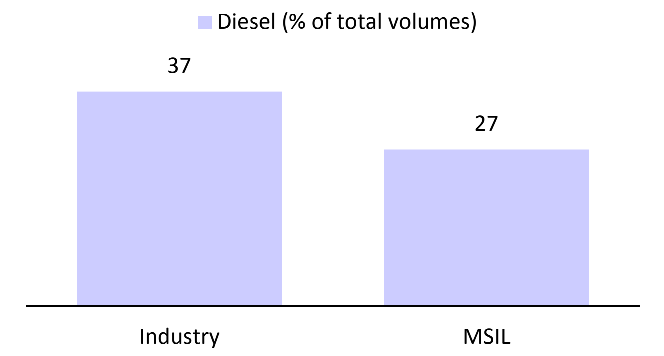
Source: SIAM, Company, MOSL

Exhibit 12: New WagonR is expensive by just ~1% despite meeting with all upcoming safety regulations

	New WagonR 1.2 ltr	New WagonR 1ltr	Outgoing WagonR 1ltr
Starting Price (INR '000 ex-showroom)	489	419	415
Remarks	❖ ABS with EBD ❖ Front airbags ❖ Front seat belt reminder ❖ Integrated reverse parking sensors ❖ Meets all applicable regulations including offset, side crash and pedestrian safety norms		

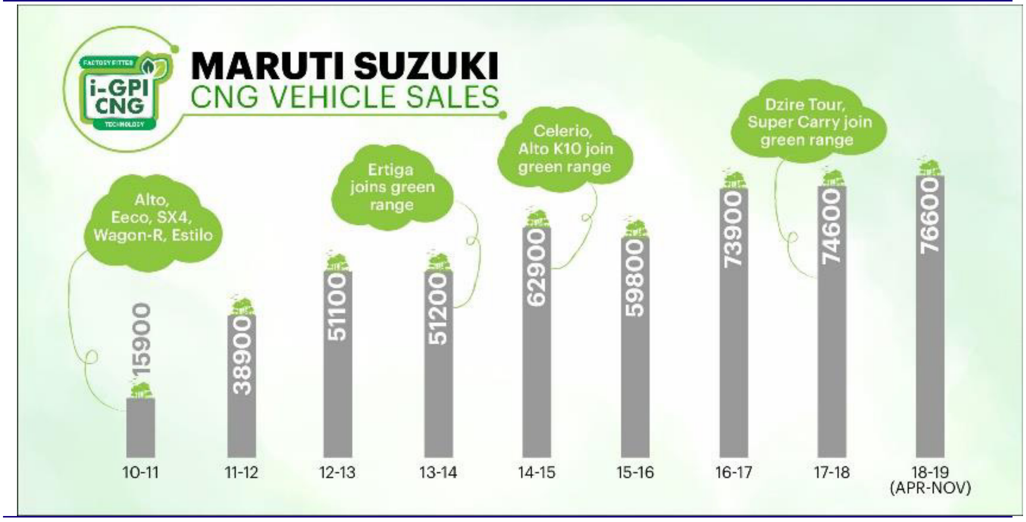
Source: Company, MOSL

Exhibit 13: MSIL is relatively well placed due to its less dependence on diesel



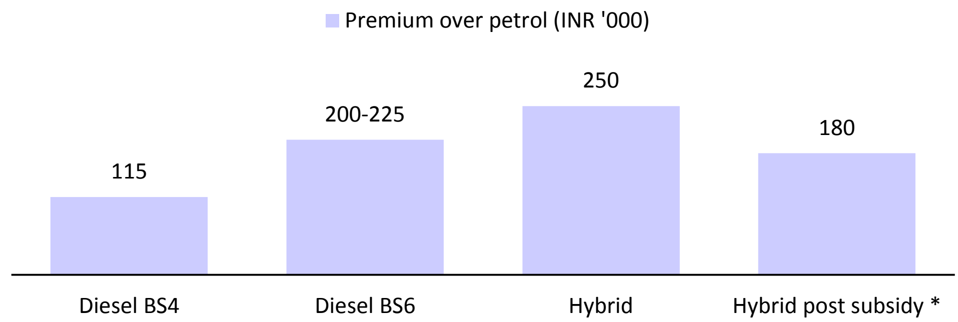
Source: Company, MOSL

Exhibit 14: MSIL is highly focused on CNG fuel – Has 8 models offering CNG variant; CNG contributes ~6% of volumes



Source: Company, MOSL

Exhibit 15: Strong hybrid system can be a good alternative to diesel under BS6



** FAME 2 policy (till Mar-19) provides ~INR70k subsidy for Toyoyta Camry Hybrid*

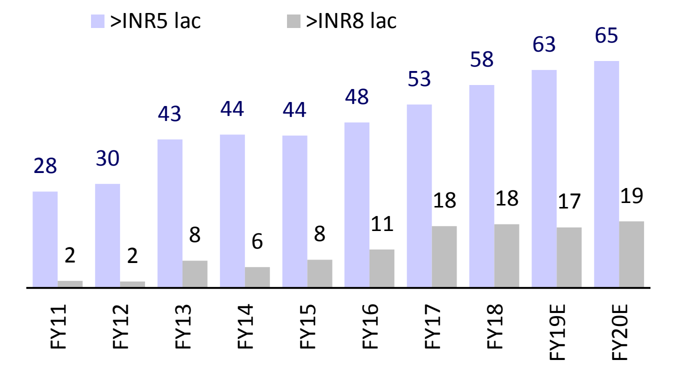
Source: Industry, MOSL

Several levers to sustain long-term margins in 13-15% range

- MSIL's EBITDA margins should sustain in the range of 13-15% in the long term, although the convergence of cyclical headwinds can drag down margins in the short run (like in 3QFY19). We enlist following levers to improve and sustain margins:
  - Further improvement in product mix
  - Reduction in discounts as contribution from new product launched increases
  - Execution of modular platform strategy by FY21/22
  - Increase in local sourcing at Gujarat and higher volume contribution from the more profitable Gujarat plant (from ~16.5% of volumes in FY19 to ~29% by FY21)
  - Reducing royalty with increasing contribution of India to R&D
  - Further increase in localization
  - Operating leverage
- Further, we expect lower margins volatility due to a reduction in FX exposure as (a) royalty shifts to INR by FY22 (JPY royalty at ~3.3% of sales in FY19) and (b) increase in localization (gross imports including vendor imports at ~15% of sales).

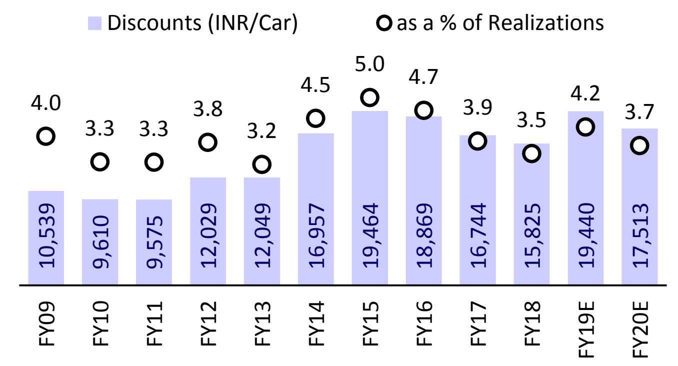
- We, thus, expect MSIL's EBITDA margin to expand by 120bp (over FY19-21E) to ~14.2% in FY21 due to the above-mentioned factors. Consequently, the EBIT margin would improve ~150bp to ~11% in FY21.

Exhibit 16: Share of premium products rising in MSIL's product mix



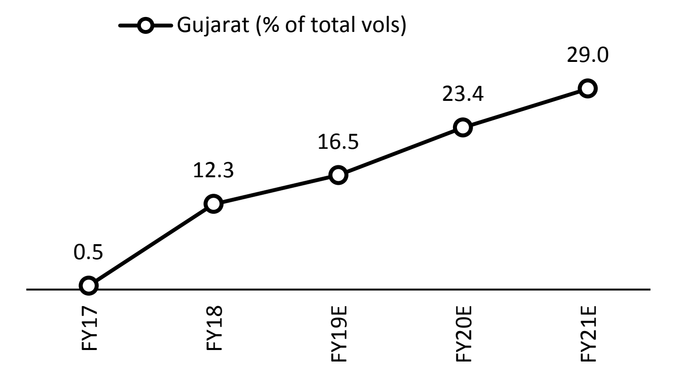
Source: Company, MOSL

Exhibit 17: New launches, coupled with demand revival, to help reduce discounts



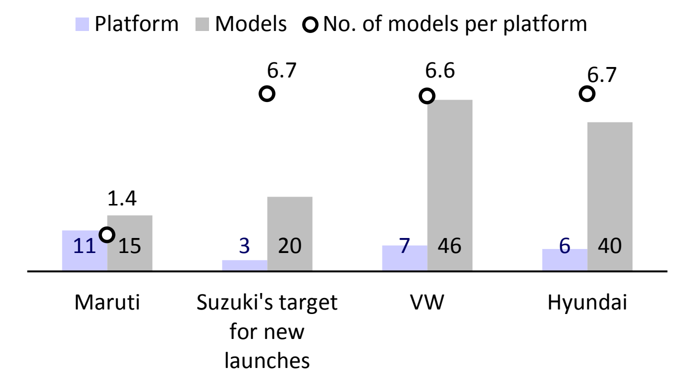
Source: Company, MOSL

Exhibit 18: Increasing contribution from Gujarat plant to support margins



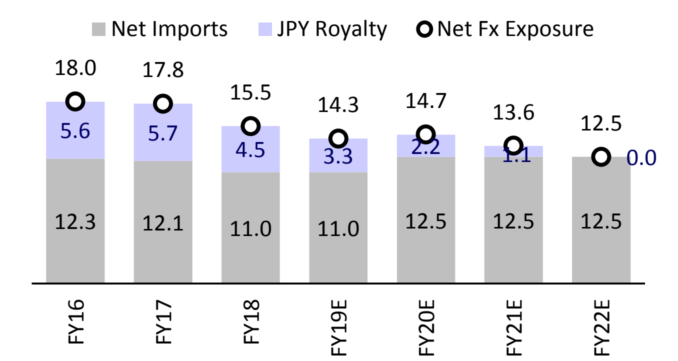
Source: Company, MOSL

Exhibit 19: Modular platforms to improve time to market and economies of scale



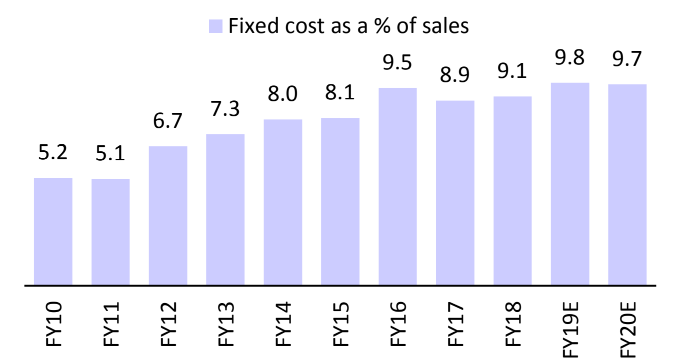
Source: Company, MOSL

Exhibit 20: Fx exposure to reduce as royalty shifts to INR



Source: Company, MOSL

Exhibit 21: Significant operating leverage potential for MSIL

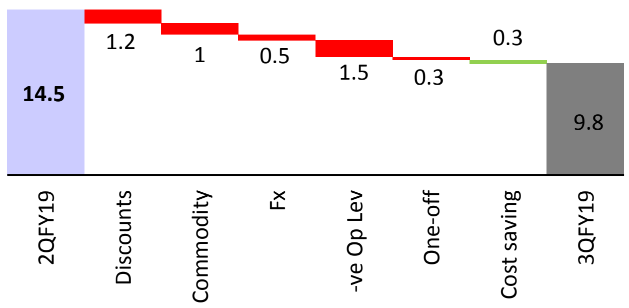


Source: Company, MOSL

Worst is over, expect improvement in performance hereon

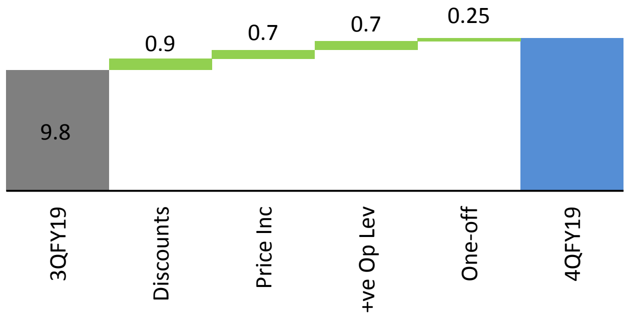
- MSIL reported one of the weakest operating performances in five years in 3QFY19 due to a combination of several adverse factors.
- While demand improvement will take another 1-2 quarters, the operating performance is likely to improve sequentially in 4QFY19 onward, with the margins stabilizing around 14% level from 2HFY20.
- This would be led by (a) normalization of the product lifecycle (after no launches in large part of CY18), (b) lower discounts led by higher share of new products, (c) higher localization at Gujarat plant by 2HFY20, (d) reducing JPY exposure and (e) operating leverage.

Exhibit 22: 3QFY19 EBITDA margins impacted by convergence of headwinds…



Source: Company, MOSL

Exhibit 23: …part of which is likely to normalize from 4QFY19



Source: Company, MOSL

Valuation and view

A foreword on long-term view on PV industry: Indian passenger vehicle industry growth has undershot expectations over the past five years (FY13-18 – ~4% CAGR in volumes) due to several factors, including weaker economic growth, poor monsoon in FY15/16 and the regulatory impact. We expect industry volumes to recover, driven by high aspirations, improving affordability and low penetration (<30 cars per 1,000 population). We believe the PV industry would reach an inflection point at USD3,000-4,000 PCI by FY22/23, driving strong sustainable demand. Hence, we estimate PV industry volume CAGR of 8.2% over FY18-22 (on a low base of ~3% CAGR).

- **Multi-year favorable product lifecycle for MSIL:** We believe the company could emerge as the biggest beneficiary of an impending demand recovery, considering its stronghold in the worst-impacted entry-level segment and a favorable product lifecycle. MSIL's new launches targeted toward filling gaps in its portfolio are likely to improve its overall product mix. We believe MSIL would gain further market share, driven by 8.2% volume CAGR over FY19-21. This, coupled with an improvement in mix and a reduction in discounts, would drive revenue CAGR of ~12% over FY19-21.
- **Worst of operating performance behind, expect gradual recovery from 4QFY19:** While demand improvement will take another 1-2 quarters, the operating performance is likely to improve sequentially from 4QFY19 with margins stabilizing around 14% level from 2HFY20. This would be led by (a) normalization of product lifecycle (after no launches in large part of CY18), (b) lower discounts led by higher share of new products, (c) higher localization at Gujarat plant by 2HFY20, (d) reducing JPY exposure and (e) operating leverage.
- **Strong margins, asset-light model to result in strong FCF generation and RoE improvement:** The Gujarat plant arrangement with its parent Suzuki will make

MSIL's business asset-light, allowing management to focus more on marketing. We expect strong cumulative FCF generation of INR152b over FY19-21, after budgeting for cumulative annual capex of ~INR150b. RoE is estimated to improve gradually from 16.3% in FY19 to ~19% by FY21.

- **Structural improvement in business to support valuations**: All business parameters such as industry consolidation, market share improvement, reduced JPY exposure and improving share of premium products have improved MSIL's positioning considerably. We see headroom for a further improvement in the dividend payout. Consequently, we expect financial parameters to exhibit improvements over the next five years. In summary, the moat for MSIL is expected to strengthen further, which should support premium over five-year average of 21.2x (10 year average of 18.3x).
- **Buy with TP of ~INR8,131:** We remain positive on MSIL, considering its (a) multi-year favorable product lifecycle, (b) improvement in product mix (increasing share of premium products), aiding realizations and consequently margins, (c) reducing JPY exposure, (d) lower capex intensity, (e) improvement in FCF conversion, and (f) sharp improvement in RoIC. We expect earnings growth to remain strong for MSIL, driven by higher volumes and margins. We value MSIL at 23x Mar'21E core EPS, based on a two-stage dividend discount model (refer exhibit 25), which is in line with five-year average P/E (~17% premium to 10-year LPA). The stock trades at 23.9x/19.7x FY20E/21E EPS. Maintain **Buy** with a TP of INR8,131 (23x Mar'21 EPS).

Exhibit 24: MSIL – Business Construct

Key Operating Parameters	FY18	FY19E	FY20E	FY21E	FY22E	FY13-18 Avg	CAGR (FY18-22E)	Remarks
Dom. Industry Vols (M unit)	3.26	3.42	3.7	4.1	4.5	4.1% CAGR	8.2	❖ With PCI reaching inflection point of USD3-4k by FY22/23, we expect strong growth in PV industry to sustain.
Volumes (M units)	1.78	1.87	2.0	2.2	2.4	8.7% CAGR	7.8	❖ Expect volumes CAGR of 7.8%
Dom. Market share (%)	50.7	51.6	52.3	51.5	51.4	45.1		❖ Market share expected to remain stable due to a strong product pipeline, a further improvement in quality and quantity (~2x in 4 years) of sales network, and a stable competitive environment.
EBIT Margins (%)	12.0	9.5	10.3	11.0	11.6	9.2		❖ Favorable mix, discount moderation and operating leverage would offset cost pressures, resulting in stable margins.
Key Financial Indicators								
Consol. EPS (INR/Sh)	267	245	292	354	410	26.7% CAGR	11.3	❖ Expect consol. EPS CAGR of 11.3%
Core Consol. EPS (INR/Sh)	209	182	222	271	320	28.3% CAGR	11.3	
FCFF (INR/Sh)	272	108	163	231	272			
RoIC (%)	84.1	71.2	71.7	79.7	88.6	29.6		
RoCE (%)	27.3	22.7	24.6	26.6	27.7	19.5		❖ RoCE to remain in 24-27% range
Dividend (INR/sh)	80	100	125	140	160			
Target Price								
Core PE (x)					**23**	23.4	We assign five-year average P/E (despite lower EPS CAGR) to factor in the structural improvement in business positioning for MSIL on all counts, reflecting in a sharp improvement in capital efficiencies, FCF conversion and dividend payouts. Stock could further re-rate driven by (a) further clarity on MSIL's preparedness for EVs and (b) further increase in dividend payouts.	
Core Value (INR/Sh)					9,429			
Cum Div (FY18-20)					225			
Target Price - Mar'21 (INR/Sh)					**9,654**			

Source: MOSL

Exhibit 25: We arrive at target P/E of 23x based on two-stage dividend discount model

	High Growth stage (Stage 1 - 10 yrs)	Low Growth Stage (Stage 2)
Payout ratio	40.0%	60.0%
Cost of Equity (k)	12.8%	12.3%
Growth (g)	15.0%	8.0%
No. of years (n)	10.0	
Numerator	-0.098	2.622
Denominator	-0.022	0.142
Equation (Num/Den)	4.5	18.3
Derived PE (x)	**22.7**	

Source: MOSL

Exhibit 26: Paradigm shift in every operating parameter

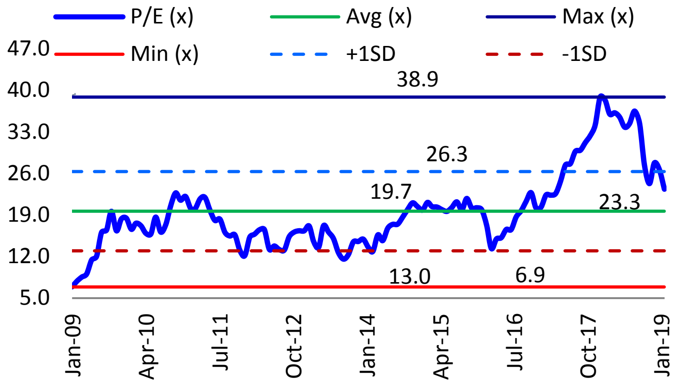
Parameters	2010-16	2017-22
Net new entrants (# of players)	4	2
Market share (%)	41	45-48
Rural contribution (%)	27	38-40
Contribution from premium segment	0	25
Gross Margins (%)	26	30-32
EBITDA Margins (%)	11.5	15-16
Net JPY Exposure (% of sales)	18	<5
R&D (% of sales)	1	1.5-2
Capex (% of sales)	7	5
FCF conversion (FCF as % of PAT)	57	~70
RoE (%)	16	21
Dividend Payout (%)	16	35
1 year forward PE (x)	18.6	20-25

Exhibit 27: Snapshot of MSIL's valuations in historical context

Company name	Current	10 YR PE (x)			Current	10 YR PB (x)			5 YR Avg	
	P/E (x)	Avg PE (x)	+1SD PE (x)	-1SD PE (x)	P/B (x)	Avg PB (x)	+1SD PB (x)	-1SD PB (x)	P/E (x)	P/B (x)
Maruti Suzuki	23.3	19.7	26.3	13.0	4.1	3.3	4.6	2.0	23.4	4.2

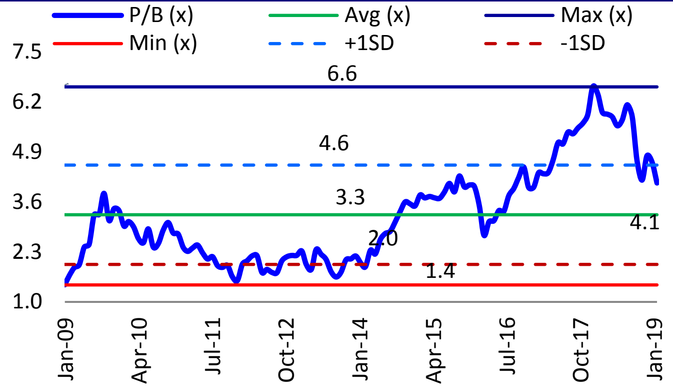
Source: Bloomberg, MOSL

Exhibit 28: Post correction in stock price, MSIL's one-year forward P/E is near its five-year average of ~23.6x



Source: MOSL

Exhibit 29: MSIL's one-year forward PB (x) band



Source: MOSL

Exhibit 30: Comparative valuation

	CMP	Rating	TP	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yield (%)		EPS CAGR (%)
Auto OEM's	**(INR)***		**(INR)**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY18-20E**
Bajaj Auto	2,646	Buy	3,045	16.6	14.9	11.6	9.6	22.8	22.8	2.3	2.6	8.2
Hero MotoCorp	2,781	Neutral	2,928	16.2	15.4	9.5	8.9	28.1	27.7	3.8	4.1	-1.1
TVS Motor	500	Neutral	576	32.9	22.7	16.5	12.2	23.1	27.8	0.8	1.0	25.6
M&M	674	Buy	914	15.3	13.6	11.7	10.0	14.4	14.5	1.5	1.5	10.0
Maruti Suzuki	**6,968**	**Buy**	**8,131**	**28.5**	**23.9**	**15.7**	**13.4**	**16.3**	**17.4**	**1.4**	**1.8**	**4.6**
Tata Motors	180	Buy	244	55.9	8.3	2.9	2.3	1.1	7.4	0.2	0.2	-2.0
Ashok Leyland	82	Buy	136	13.8	10.5	7.4	5.4	23.0	26.3	3.1	3.2	20.5
Eicher Motors	20,158	Buy	24,760	23.6	19.7	18.6	16.5	29.5	28.2	0.6	0.6	13.0
Escorts	678	Neutral	754	12.4	11.2	9.6	8.4	20.0	18.8	0.7	0.7	23.7
Auto Ancillaries												
Bharat Forge	487	Buy	578	21.6	17.6	12.2	10.4	20.9	21.9	1.1	1.3	22.4
Exide Industries	224	Buy	280	25.1	20.7	13.5	11.1	12.7	14.1	1.2	1.4	15.1
Amara Raja Batteries	771	Buy	834	26.6	20.8	13.4	10.5	15.8	17.6	0.6	0.7	15.8
BOSCH	19,082	Neutral	21,233	34.6	28.1	22.7	17.7	16.1	17.9	1.0	1.2	20.3
Endurance Tech	1,214	Buy	1,513	33.5	26.3	15.2	12.2	21.5	23.2	0.5	1.0	26.1
Motherson Sumi	138	Buy	191	24.2	16.4	8.2	5.7	18.2	23.2	1.0	1.6	25.2
CEAT	1,085	Buy	1,370	16.8	13.2	8.9	7.7	9.6	11.2	0.6	0.8	13.6

Source: MOSL

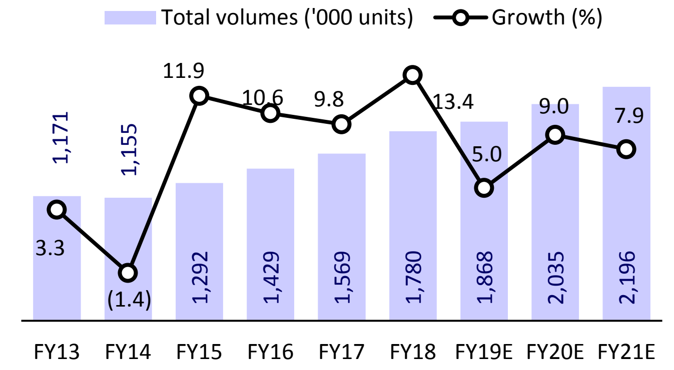
Story in charts: Expect 12.9% EPS CAGR over FY19-21

Exhibit 31: Market share gains continues in most segments

	FY14	FY15	FY16	FY17	FY18	9M FY19
Mini	76.7	81.4	79.8	67.8	71.3	72.5
Compact	37.6	43.1	42.0	46.2	52.2	56.5
Compact-Sedan	63.8	53.7	58.1	54.8	61.8	58.0
Mid-Size	2.2	15.4	25.2	32.8	30.0	26.6
UV1	21.1	21.4	25.6	38.2	38.8	38.9
Dom. PV	**42.1**	**45.0**	**46.8**	**47.4**	**50.0**	**51.7**

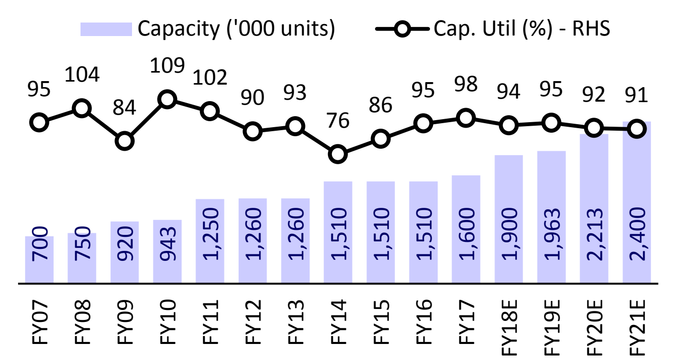
Source: Company, MOSL

Exhibit 32: Trend in volumes and growth over FY19-21



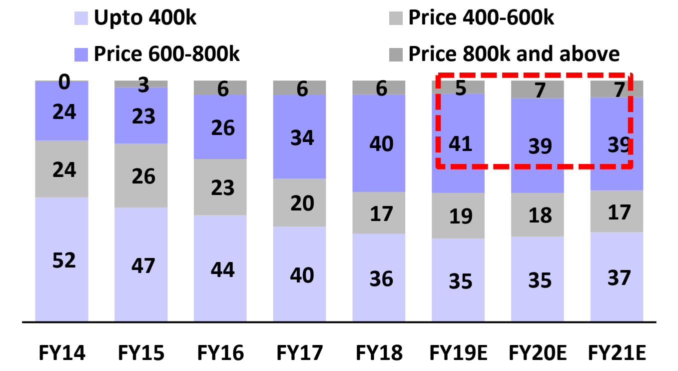
Source: Company, MOSL

Exhibit 33: MSIL to operate at peak utilization



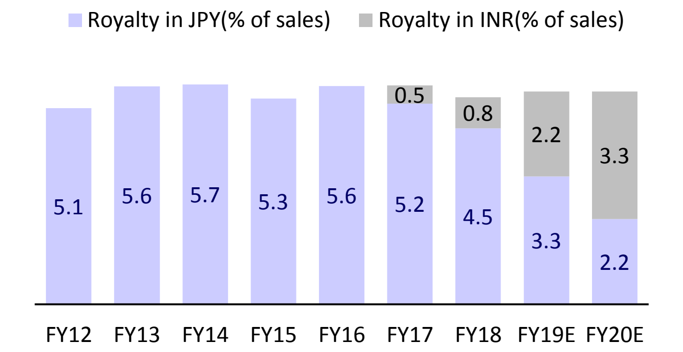
Source: Company, MOSL

Exhibit 34: Trend in product mix



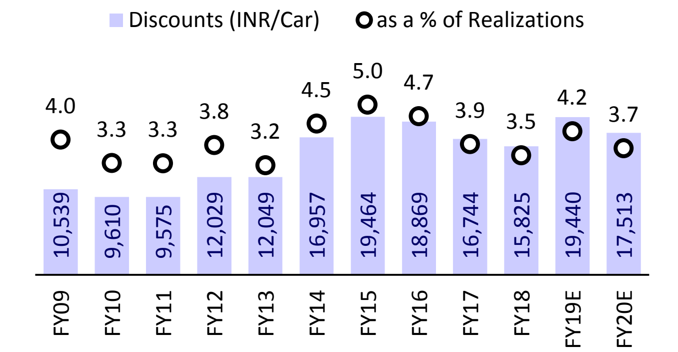
Source: Company, MOSL

Exhibit 35: INR-based royalty to reduce gradually



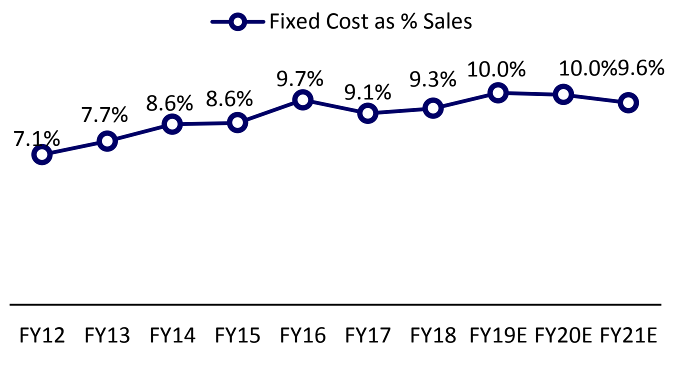
Source: Company, MOSL

Exhibit 36: Discounts to increase momentarily in FY19



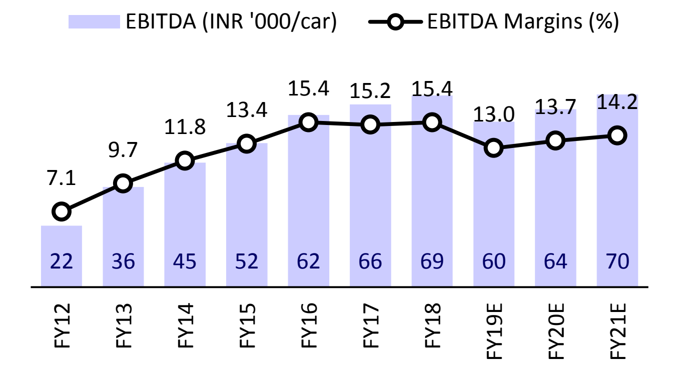
Source: Company, MOSL

Exhibit 37: Fixed cost as % of sales



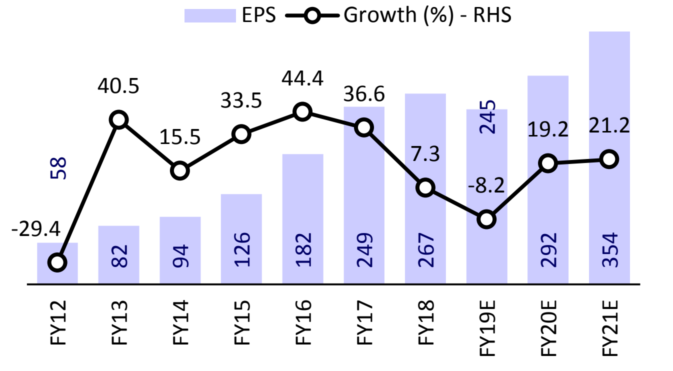
Source: Company, MOSL

Exhibit 38: EBITDA margins and EBITDA per car



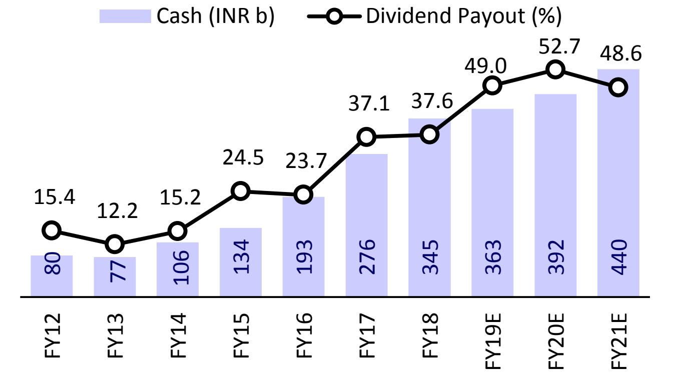
Source: Company, MOSL

Exhibit 39: EPS (INR) and growth in EPS



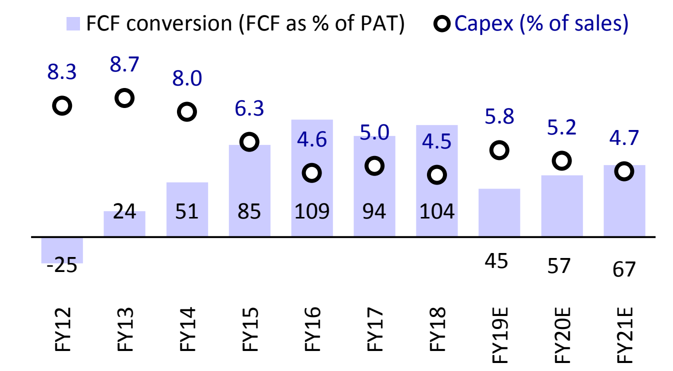
Source: MOSL, Company

Exhibit 40: Dividend payout (%) and cash balance (INR b)



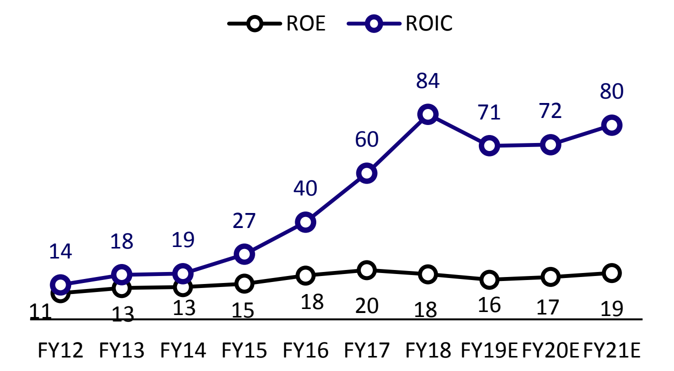
Source: MOSL, Company

Exhibit 41: FCF to remain strong (INR b)



Source: Company, MOSL

Exhibit 42: RoE v/s RoIC (%)



Source: Company, MOSL

Exhibit 43: Snapshot of revenue model

000 units	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
A1/LCVs	17	0	0	1	10	22	26	30
Growth (%)						117.0	20.0	15.0
% of Dom vols	1.6	0.0	0.0	0.1	0.6	1.2	1.4	1.4
MPV (Vans)	102	129	143	152	155	181	192	194
Growth (%)	-7.6	26.3	11.2	6.0	2.1	16.5	6.0	1.4
% of Dom vols	9.7	11.0	11.0	10.5	9.4	10.2	9.9	9.3
A2 (other hatchbacks)	672	730	779	832	936	984	1,068	1,170
Growth (%)	0.7	8.6	6.8	6.7	12.5	5.2	8.5	9.6
% of Dom vols	63.8	62.3	59.7	57.6	56.6	55.7	55.2	55.9
A3 (Dzire, Ciaz)	202	244	288	264	299	322	344	382
Growth (%)	14.4	20.9	18.3	-8.4	13.1	7.7	6.9	11.1
% of Dom vols	19.1	20.8	22.1	18.3	18.1	18.2	17.8	18.3
Uvs (Ertiga, Compact SUV)	61	68	94	196	254	259	305	318
Growth (%)	-22.8	11.6	38.4	107.3	29.6	2.0	17.9	4.3
% of Dom vols	5.8	5.8	7.2	13.6	15.3	14.6	15.8	15.2
Total Domestic	**1,054**	**1,171**	**1,305**	**1,445**	**1,654**	**1,767**	**1,935**	**2,095**
Growth (%)	0.2	11.1	11.5	10.7	14.5	6.9	9.5	8.3
% of Total vols	91.2	90.6	91.3	92.1	92.9	94.6	95.1	95.4
Exports	101	122	124	124	126	101	101	101
Growth (%)	-16	20	2	0	2	-20	0	0
% of Total vols	9	9	9	8	7	5	5	5
Total Volumes	**1,155**	**1,292**	**1,429**	**1,569**	**1,780**	**1,868**	**2,035**	**2,196**
Growth (%)	-1.4	11.9	10.6	9.8	13.4	5.0	9.0	7.9
ASP (INR 000/unit)	**372**	**379**	**387**	**403**	**434**	**448**	**458**	**468**
Growth (%)	18.5	1.9	2.0	4.1	7.7	3.3	2.3	2.1
Net Sales (INR b)	**436**	**438**	**500**	**575**	**680**	**798**	**856**	**953**
Growth (%)	22	0	14	15	18	17	7	11

Source: MOSL, Company

Financials and valuations

Income Statement (INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Operating Other Income	11,470	13,651	10,969	11,254	16,579	23,330	24,432	27,921
Net Op Income	**437,918**	**499,706**	**575,381**	**680,348**	**797,627**	**856,461**	**953,053**	**1,074,665**
Change (%)	0.5	14.1	15.1	18.2	17.2	7.4	11.3	12.8
RM (% of Net Sales)	71.6	70.2	67.3	68.7	68.9	69.8	69.6	69.9
Staff Cost (% of Net Sales)	3.1	3.2	3.4	3.4	3.6	3.8	3.9	3.8
Other Var. Exp (% of Net Sales)	10.1	10.0	10.8	10.1	9.4	10.5	9.9	9.3
Other Fixed (% of Net Sales)	3.4	3.1	3.1	2.6	2.7	2.8	2.9	2.7
EBITDA	**51,871**	**67,129**	**88,844**	**103,517**	**123,122**	**111,538**	**130,698**	**152,754**
EBITDA Margins (%)	11.8	13.4	15.4	15.2	15.4	13.0	13.7	14.2
Depreciation	20,844	24,703	28,202	26,021	27,579	29,752	32,153	34,699
EBIT	**31,027**	**42,426**	**60,642**	**77,496**	**95,543**	**81,786**	**98,545**	**118,055**
EBIT Margins (%)	7.1	8.5	10.5	11.4	12.0	9.5	10.3	11.0
Interest	1,759	2,060	815	894	3,457	850	800	750
Other Income	7,317	8,316	14,610	23,001	20,455	22,964	25,382	30,132
EO Expense	0	0	0	0	2,507	-2,000	0	0
PBT	**36,585**	**48,682**	**74,437**	**99,603**	**110,034**	**105,900**	**123,126**	**147,438**
Tax	8,755	11,570	20,794	26,101	32,816	31,770	36,938	42,757
Effective tax Rate (%)	23.9	23.8	27.9	26.2	29.8	30.0	30.0	29.0
PAT	**27,830**	**37,112**	**53,643**	**73,502**	**77,218**	**74,130**	**86,188**	**104,681**
Change (%)	16.3	33.4	44.5	37.0	5.1	-4.0	16.3	21.5
% of Net Sales	6.5	7.6	9.5	11.0	9.9	8.9	9.3	10.0
Adj. PAT	**27,830**	**37,112**	**53,643**	**73,502**	**78,977**	**72,730**	**86,188**	**104,681**
Change (%)	16.3	33.4	44.5	37.0	7.4	-7.9	18.5	21.5

Balance Sheet (INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sources of Funds								
Share Capital	1,510	1,510	1,510	1,510	1,510	1,510	1,510	1,510
Reserves	208,270	252,709	297,332	362,801	416,063	453,883	494,684	548,531
Net Worth	**209,781**	**254,219**	**298,842**	**364,311**	**417,573**	**455,393**	**496,194**	**550,041**
Loans	16,851	1,802	774	4,836	1,108	1,108	1,108	1,108
Deferred Tax Liability	5,866	884	1,943	4,662	5,589	5,589	5,589	5,589
Capital Employed	**232,498**	**256,905**	**301,559**	**373,809**	**424,270**	**462,090**	**502,891**	**556,738**
Application of Funds								
Gross Fixed Assets	227,018	147,111	153,218	186,595	214,239	275,498	325,498	375,498
Less: Depreciation	119,114	26,989	28,118	53,668	80,649	110,401	142,554	177,253
Net Fixed Assets	**107,904**	**120,122**	**125,100**	**132,927**	**133,590**	**165,097**	**182,944**	**198,245**
Capital WIP	26,214	18,169	10,069	12,523	21,259	10,000	10,000	10,000
Investments	101,179	139,514	199,322	284,810	352,902	352,902	352,902	352,902
Curr.Assets, Loans	**70,061**	**74,809**	**84,909**	**77,392**	**81,841**	**105,619**	**142,511**	**198,501**
Inventory	17,060	26,859	31,321	32,622	31,608	35,197	41,778	47,109
Sundry Debtors	14,137	11,157	13,222	11,992	14,618	16,425	18,278	20,610
Cash & Bank Balances	6,298	183	391	138	711	19,093	47,551	95,879
Loans & Advances	28,895	2,639	1,744	978	2,878	2,878	2,878	2,878
Others	3,672	33,971	38,231	31,662	32,026	32,026	32,026	32,026
Current Liab. & Prov.	**72,860**	**95,709**	**117,841**	**133,843**	**165,322**	**171,528**	**185,466**	**202,910**
Sundry Creditors	64,103	84,106	105,748	126,001	155,025	160,339	172,777	188,437
Provisions	8,757	11,603	12,093	7,842	10,297	11,189	12,689	14,474
Net Current Assets	**-2,800**	**-20,900**	**-32,932**	**-56,451**	**-83,481**	**-65,909**	**-42,955**	**-4,409**
Appl. of Funds	**232,497**	**256,905**	**301,559**	**373,809**	**424,270**	**462,090**	**502,891**	**556,738**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)								
Adjusted EPS	**92.1**	**122.9**	**177.6**	**243.3**	**261.4**	**240.8**	**285.3**	**346.5**
Consol EPS	**94.4**	**126.0**	**182.0**	**248.6**	**266.7**	**244.8**	**291.8**	**353.5**
Cash EPS	163.4	207.8	275.3	334.8	358.0	343.3	398.2	468.4
Book Value per Share	694	842	989	1,206	1,382	1,508	1,643	1,821
DPS	12.0	25.0	35.0	75.0	80.0	100.0	125.0	140.0
Div. payout (%)	15.2	24.5	23.7	37.1	37.6	49.0	52.7	48.6
Valuation (x)								
Consol. P/E	73.8	55.3	38.3	28.0	26.1	28.5	23.9	19.7
Cash P/E	42.6	33.5	25.3	20.8	19.5	20.3	17.5	14.9
EV/EBITDA	38.8	29.3	21.5	17.6	14.2	15.5	13.0	10.8
EV/Sales	4.7	4.0	3.4	2.7	2.2	2.1	1.8	1.6
P/BV	10.0	8.3	7.0	5.8	5.0	4.6	4.2	3.8
Dividend Yield (%)	0.2	0.4	0.5	1.1	1.1	1.4	1.8	2.0
FCF Yield (%)	0.7	1.5	2.8	3.3	3.9	1.5	2.3	3.3
Profitability Ratios (%)								
RoIC	18.8	26.7	39.9	60.0	84.1	71.2	71.7	79.7
RoE	13.3	14.6	18.0	20.2	18.5	16.3	17.4	19.0
RoCE	16.5	19.8	25.0	26.9	27.3	22.7	24.6	26.6
Turnover Ratios								
Debtors (Days)	11	8	8	6	7	7	7	7
Inventory (Days)	16	23	23	21	17	17	19	19
Creditors (Days)	75	88	100	98	103	98	95	92
Work. Cap. (Days)	-48	-57	-69	-72	-79	-73	-69	-66
Asset Turnover (x)	1.9	1.9	1.9	1.8	1.9	1.9	1.9	1.9

Cash Flow Statement (INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit before Tax	36,585	48,682	74,437	99,603	110,034	105,900	123,126	147,438
Interest	-7,636	2,060	815	894	3,457	850	800	750
Depreciation	20,844	24,703	28,202	26,021	27,579	29,752	32,153	34,699
Direct Taxes Paid	-8,320	-10,407	-19,099	-23,214	-30,550	-31,770	-36,938	-42,757
(Inc)/Dec in WC	7,562	7,457	14,631	21,940	28,058	810	5,504	9,781
Other Items		-9,288	-14,141	-22,451	-20,728	-22,964	-25,382	-30,132
CF from Oper.Activity	**49,035**	**63,207**	**84,845**	**102,793**	**117,850**	**82,577**	**99,264**	**119,779**
(Inc)/Dec in FA	-34,927	-31,487	-26,327	-33,723	-35,653	-50,000	-50,000	-50,000
Free Cash Flow	**14,108**	**31,720**	**58,518**	**69,070**	**82,197**	**32,577**	**49,264**	**69,779**
(Pur)/Sale of Invest.	-14,002	-12,613	-45,947	-58,056	-47,168	22,964	25,382	30,132
CF from Inv. Activity	**-48,929**	**-44,100**	**-72,274**	**-91,779**	**-82,821**	**-27,036**	**-24,618**	**-19,868**
Change in Networth	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	3,373	-13,282	-2,353	2,527	-3,728	0	0	0
Interest Paid	-1,615	-2,098	-921	-1,095	-3,464	-850	-800	-750
Dividends Paid	-2,417	-4,241	-9,090	-12,725	-27,268	-36,310	-45,388	-50,834
CF from Fin. Activity	**-659**	**-19,621**	**-12,364**	**-11,293**	**-34,460**	**-37,160**	**-46,188**	**-51,584**
Inc/(Dec) in Cash	**-553**	**-514**	**207**	**-279**	**569**	**18,381**	**28,459**	**48,327**
Add: Op. Balance	7,750	697	183	391	138	711	19,093	47,551
Closing Balance	**7,197**	**183**	**390**	**112**	**707**	**19,092**	**47,551**	**95,879**

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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