

# Maruti Suzuki

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR6,997**      **TP: INR8,000 (+14%)**      **Buy**

## Miss on higher discounts; demand outlook improving

### Performance bottoms out; Buy into weakness

- MSIL's 3QFY20 results are a reflection of the company's efforts to revive demand through discounts during the festive season and ahead of year change/BS6 transition. We believe MSIL's operating performance has bottomed out and recovery is expected from 1QFY21.
- Our FY20/FY21 EPS estimates remain unchanged and we would buy into any weakness post such weak results. Maintain **Buy**.

### Record-high discounts dilute benefit of operating leverage

- MSIL's 3QFY20 revenues/EBITDA/PAT grew 5%/9%/5% YoY to ~INR207b/INR21b/INR15.6b respectively. 9MFY20 revenue/EBITDA/PAT declined 11%/32%/22% respectively.
- Domestic PV market share recovered 130bp YoY (+240bp QoQ) to 52%.
- Net realization increased 3% YoY (-6% QoQ) to ~INR473k (v/s est. ~INR499k). QoQ decline was due to higher discounts and adverse mix. Discounts inched up to ~INR33k/unit (v/s ~INR24k in 3QFY19 v/s INR25.8k in 2QFY20).
- Gross margin declined ~150bp QoQ due to (a) higher sourcing from Gujarat (accounting impact), (b) higher discounts (~190bp QoQ), (c) lower production (v/s wholesales; ~100bp QoQ impact), and (d) ~60bp benefit of lower cost.
- EBIT margins improved 10bp YoY (+200bp QoQ) to 6% (v/s est. ~6.2%). EBIT grew ~7% YoY (+83% QoQ) to ~INR12.4b (v/s est. ~INR13.6b).

### Highlights from management commentary

- Demand environment is improving, which can be gauged by the increase in inquiries. While rural demand is now better than urban, outlook is also promising based on encouraging estimates for Rabi crop. SIAM has forecasted PV industry growth at 3-5% for FY21. Our estimates factor in recovery from 1QFY21 and volume growth of 8.5% for FY21.
- MSIL does not expect material pre-buying in 4QFY20 as it plans to stop diesel car production beginning Feb'20. Currently, it has <10 days inventory for diesel.
- Post BS6, it expects a further decline in industry share of diesel to 15-20% (from ~29% in 3QFY20). Even in mid-sized SUVs like Hector, Creta and Venue, share of petrol is picking up. For MSIL, we expect the loss in diesel to be made up by petrol and CNG/hybrids.
- In Jan'20, key models have seen INR5-6k reduction in discounts and price increase of INR5-6k. This implies 200-250bp QoQ recovery in gross margins.
- Commodity prices, which have started to increase (steel, rhodium, palladium etc.), will start reflecting in P&L from 1QFY21. We have lowered our gross margin estimates to reflect the inflation in key commodities.

### Valuation & view

- Signs of headwinds easing augur well as it should enable faster recovery for MSIL. A key monitorable in the near term would be the smooth transition of diesel to petrol.
- Valuations at 26.7x/20.6x FY21/FY22E consol. EPS are on the early recovery cycle, as we estimate ~30% EPS CAGR over FY20-22E. Maintain **Buy** with TP of ~INR8,000 (~25x Dec'21 consol. EPS).

Bloomberg	MSIL IN
Equity Shares (m)	302
M.Cap.(INRb)/(USDb)	2113.6 / 29.6
52-Week Range (INR)	7755 / 5447
1, 6, 12 Rel. Per (%)	-3/15/-7
12M Avg Val (INR M)	7217
Free float (%)	43.8

### Financials & Valuations (INR b)

Y/E MARCH	2020E	2021E	2022E
Sales	773	855	971
EBITDA	77.4	101.9	132.6
Adj. PAT	58.5	76.9	100.1
EBIT Margin (%)	5.4	7.7	9.5
Cons. Adj. EPS (INR)	200.0	261.7	338.9
EPS Gr. (%)	-19.2	30.8	29.5
BV/Sh. (INR)	1,625	1,771	1,977

### Ratios

Net D:E	-0.8	-0.8	-0.8
RoE (%)	11.9	14.4	16.8
RoCE (%)	15.1	18.4	21.5
Payout (%)	50	42	38

### Valuations

P/E (x)	35.0	26.7	20.6
P/BV (x)	4.3	3.9	3.5
Div. Yield (%)	1.1	1.3	1.5
FCF Yield (%)	1.5	2.0	3.2

### Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	56.2	56.2	56.2
DII	15.6	15.0	13.4
FII	23.2	23.4	22.7
Others	5.0	5.3	7.7

FII Includes depository receipts

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

## S/A Quarterly Performance

(INR Million)

Y/E March	FY19				FY20				FY19	FY20E	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
<b>Net operating revenues</b>	<b>2,24,594</b>	<b>2,22,332</b>	<b>1,96,683</b>	<b>2,14,594</b>	<b>1,97,198</b>	<b>1,69,853</b>	<b>2,07,068</b>	<b>1,98,709</b>	<b>8,60,203</b>	<b>7,72,828</b>	2,18,480
Change (%)	28.0	2.1	2.0	1.4	-12.2	-23.6	5.3	-7.4	7.8	-10.2	11.1
<b>EBITDA</b>	<b>33,511</b>	<b>32,313</b>	<b>19,311</b>	<b>22,634</b>	<b>20,478</b>	<b>16,063</b>	<b>21,021</b>	<b>19,815</b>	<b>1,07,993</b>	<b>77,377</b>	<b>22,915</b>
Change (%)	43.8	-12.1	-36.4	-24.9	-38.9	-50.3	8.9	-12.5	-12.3	130.9	18.7
Depreciation	7,198	7,212	7,677	8,102	9,186	9,261	8,580	8,473	30,189	35,500	9,350
<b>EBIT</b>	<b>26,313</b>	<b>25,101</b>	<b>11,634</b>	<b>14,532</b>	<b>11,292</b>	<b>6,802</b>	<b>12,441</b>	<b>11,342</b>	<b>77,804</b>	<b>41,877</b>	<b>13,565</b>
EBIT Margins (%)	11.7	11.3	5.9	6.8	5.7	4.0	6.0	5.7	9.0	5.4	6.2
Interest	207	257	206	88	547	282	217	254	758	1,300	300
Non-Operating Income	2,718	5,266	9,173	8,677	8,364	9,200	7,840	8,080	25,610	33,484	9,500
<b>PBT</b>	<b>28,824</b>	<b>32,110</b>	<b>20,601</b>	<b>23,121</b>	<b>19,109</b>	<b>15,720</b>	<b>20,064</b>	<b>19,168</b>	<b>1,04,656</b>	<b>74,061</b>	<b>22,765</b>
Effective Tax Rate (%)	31.5	30.2	27.7	22.3	24.9	13.6	22.0	22.4	28.3	21.1	25.2
<b>Adjusted PAT</b>	<b>19,753</b>	<b>21,009</b>	<b>14,893</b>	<b>17,956</b>	<b>14,355</b>	<b>13,586</b>	<b>15,648</b>	<b>14,879</b>	<b>73,573</b>	<b>58,468</b>	<b>17,028</b>
Change (%)	26.9	-15.4	-17.2	-12.9	-27.3	-35.3	5.1	-17.1	-6.8	-20.5	14.3

## Key Performance Indicators

Y/E March	FY19				FY20				FY19	FY20E	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Dom. PV Market Sh (%)	52.6	51.7	50.7	50.0	51.7	49.6	52.0		51.3		
Volumes ('000 units)	490.5	484.8	428.6	458.5	402.6	338.3	437.4	409.6	1,862.4	1,587.9	437.4
Change (%)	24.3	-1.5	-0.6	-0.7	-17.9	-30.2	2.0	-10.7	4.7	-14.7	2.0
Discounts (INR '000/car)	15.2	18.8	24.3	15.1	16.9	25.8	33.0		18.2		
% of Net Realn	3.3	4.1	5.3	3.2	3.5	5.1	7.0		3.9		
Net Realizations (INR '000/car)	457.9	458.6	458.9	468.1	489.8	502.1	473.4	485.1	461.9	486.7	499.5
Change (%)	3.0	3.7	2.6	2.1	7.0	9.5	3.2	3.6	3.0	5.4	5.2
<b>Cost Break-up</b>											
RM Cost (% of sales)	69.0	68.7	71.4	71.9	71.5	71.2	72.5	71.5	70.0	71.7	71.7
Staff Cost (% of sales)	3.4	3.6	4.5	3.8	4.4	4.9	4.2	4.3	3.8	4.4	3.9
Other Cost (% of sales)	12.6	13.2	14.3	13.8	13.8	14.4	13.2	14.2	13.6	13.9	13.9
Gross Margins (%)	31.0	31.3	28.6	28.1	28.5	28.8	27.5	28.5	30.0	28.3	28.3
EBITDA Margins (%)	14.9	14.5	9.8	10.5	10.4	9.5	10.2	10.0	12.6	10.0	11
EBIT Margins (%)	11.7	11.3	5.9	6.8	5.7	4.0	6.0	5.7	9.0	5.4	6.2

E:MOFSL Estimates

## Highlights from management commentary

- Inquiries in Jan'20 have been good – with growth in Petrol and ~2% decline in Diesel. While rural demand is now better than urban, outlook is also promising based on encouraging estimates for Rabi crop.
- BS6: MSIL's 11 top selling models are BS6 compliant.
- Inventory: ~9 days as of Dec'19. Diesel is <10 days inventory.
- Diesel: See no scope for any material pre-buying as company plans to stop diesel production beginning Feb'20. It has just 8,700 units of diesel vehicle inventory (v/s avg. monthly sales of ~27,000 units).
- FY21 outlook: SIAM has estimated PV industry growth at 3-5% in FY21.
- Diesel: In 3QFY20, diesel contributed ~29% to industry volumes (lowest in decades) and ~20% for MSIL. Post BS6, company expects industry share of diesel to decline further to 15-20%. Even in mid-sized SUVs like Hector, Creta and Venue, share of petrol is picking up. MSIL should benefit from this change due to its strength in petrol (of total 50.1% market share, ~40.2% comes from petrol and ~9.9% comes from diesel).
- Discounts in Jan'20 have been reduced by INR5-7k for some models.

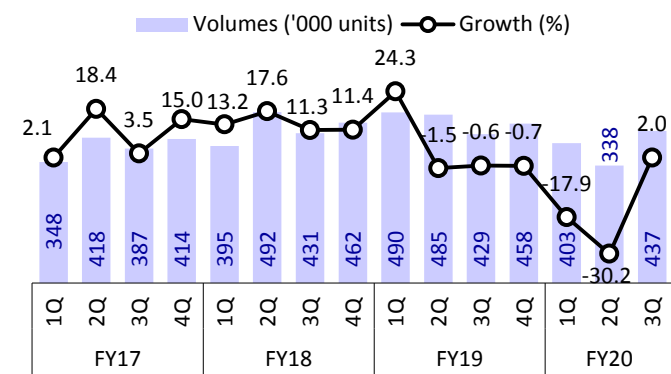
- QoQ realization decline is due to higher discounts and mix (lower diesel, higher volumes of smaller cars, etc.).
- Gross margin decline of ~150bp QoQ was due to (a) higher sourcing from Gujarat (accounting impact), (b) higher discounts (~110bp QoQ), (c) lower production (v/s wholesales; 100bp QoQ impact), and (d) 60bp benefit of lower commodity costs.
- Financing: Interest rates have declined from Apr'19 by ~55bp to 7.9%. Rejection rates have also come down.
- Key models have seen an average price increase of INR5-6k since 27<sup>th</sup> Jan'20 to pass on cost increases.
- Commodity prices, which have started to rise (steel, rhodium, palladium, etc.), will start reflecting in the P&L from 1QFY21.

## Key exhibits

**Exhibit 1: MSIL's segment-wise growth and market share movement**

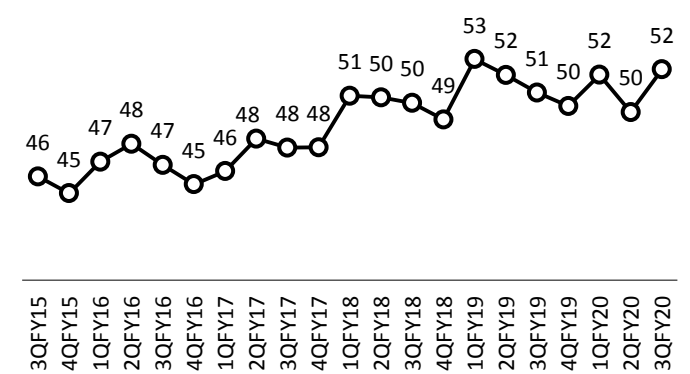
('000 units)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	FY19	FY18	YoY (%)
Mini	78.7	90.4	-13.0	41.8	88.4	379.0	427.2	-11.3
% of total	18.0	21.1		12.4		20.7	24.2	
MPV+LCVs	34.1	49.5	-31.2	33.8	1.0	202.5	165.2	22.6
% of total	7.8	11.6		10.0		11.1	9.4	
Compact incl Dzire tour	225.2	188.7	19.3	176.0	27.9	830.0	748.5	10.9
% of total	51.5	44.0		52.0		45.3	42.5	
Mid-size	5.6	12.5	-55.0	5.7	-1.8	46.2	58.9	-21.6
% of total	1.3	2.9		1.7		2.5	3.3	
UV	70.1	64.5	8.7	55.2	27.0	264	254	4.1
% of total	16.0	15.0		16.3		14.4	14.4	
Exports	23.7	23.0	2.7	25.8	-8.3	108.7	108.7	0.0
% of total	5.4	5.4		7.6		5.9	6.2	
<b>Total Sales</b>	<b>437.4</b>	<b>428.6</b>	<b>2.0</b>	<b>338.3</b>	<b>29.3</b>	<b>1,830.6</b>	<b>1,762.2</b>	<b>3.9</b>
<b>Total PV (Incl Exports) MS (%)</b>	<b>46.1</b>	<b>45.2</b>	<b>90bp</b>	<b>41.7</b>	<b>440bp</b>	<b>46.0</b>	<b>44.2</b>	<b>180bp</b>
<b>Total Dom. Car MS (%)</b>	<b>59.5</b>	<b>56.0</b>	<b>340bp</b>	<b>60.9</b>	<b>-140bp</b>	<b>59.1</b>	<b>57.3</b>	<b>180bp</b>
<b>Total PV MS (%)</b>	<b>52.5</b>	<b>51.5</b>	<b>100bp</b>	<b>50.5</b>	<b>200bp</b>	<b>52.0</b>	<b>50.4</b>	<b>160bp</b>

**Exhibit 2: Trend in volumes for MSIL**



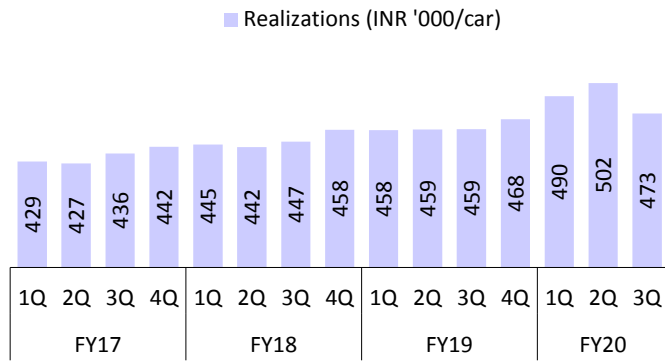
Source: Company, MOFSL

**Exhibit 3: Domestic PV market share trend**



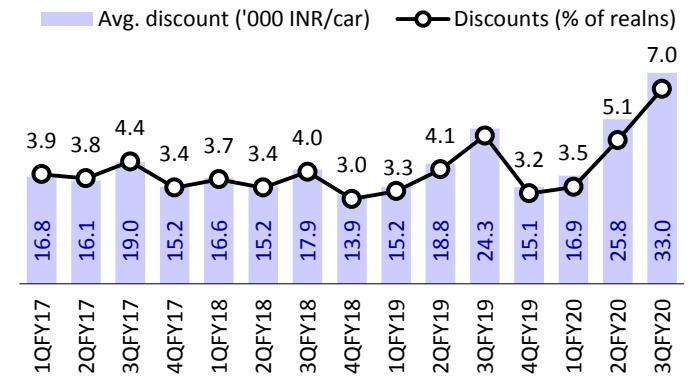
Source: Company, MOFSL

**Exhibit 4: Trend in realizations per unit**



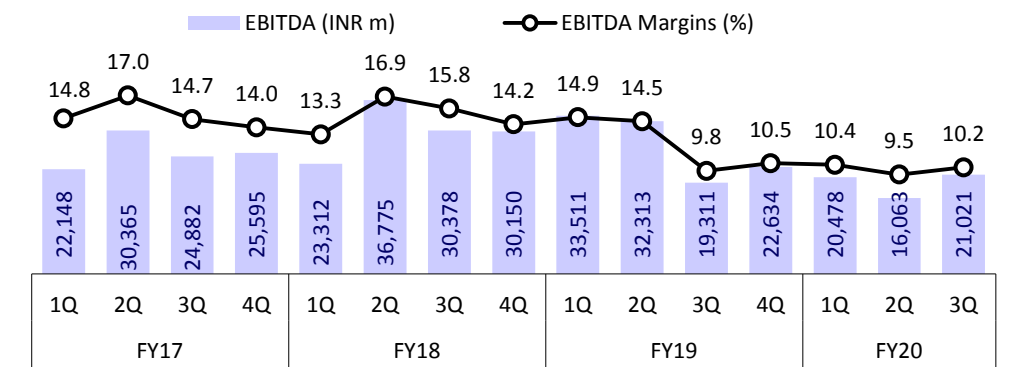
Source: Company, MOFSL

**Exhibit 5: Trend in average discounts per unit**



Source: Company, MOFSL

**Exhibit 6: Trend in EBITDA and EBITDA margins**



Source: Company, MOFSL

## Exhibit 7: Model-wise volumes ('000)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
<b>Domestic</b>											
<b>Alto</b>	61.0	71.4	64.0	62.2	61.2	67.3	65.9	64.9	57.9	36.8	43.1
Growth (%)	16.9	4.2	7.4	1.3	0.3	-5.7	3.1	4.4	-5.4	-45.4	-34.6
% of total	15.5	14.6	14.9	13.6	12.6	14.0	15.6	14.4	14.8	11.3	11.8
<b>Swift</b>	50.2	39.6	35.2	50.9	60.2	61.3	51.2	51.2	49.1	38.1	44.8
Growth (%)	35.6	-9.5	-19.6	20.2	19.7	55.0	45.5	0.6	-18.3	-38.0	-12.5
% of total	12.8	8.1	8.2	11.1	12.4	12.8	12.1	11.4	12.6	11.7	12.2
<b>Wagon-R</b>	42.5	44.9	38.9	42.4	43.8	41.2	24.5	41.9	36.1	38.2	37.5
Growth (%)	4.9	-3.4	-13.2	4.5	3.2	-8.0	-37.0	-1.3	-17.7	-7.3	53.1
% of total	10.8	9.2	9.1	9.3	9.0	8.6	5.8	9.3	9.2	11.7	10.2
<b>Dzire</b>	30.3	79.9	64.2	65.7	74.8	68.9	55.2	54.9	49.6	41.9	48.5
Growth (%)	-33.9	48.2	29.7	29.8	147.1	-13.8	-14.0	-16.4	-33.6	-39.3	-12.2
% of total	7.7	16.3	15.0	14.3	15.4	14.4	13.1	12.2	12.7	12.8	13.2
<b>Celerio</b>	20.9	25.1	26.8	21.9	26.4	26.1	26.6	24.7	16.8	13.7	12.6
Growth (%)	-3.6	17.8	1.9	-21.9	25.9	4.0	-0.7	12.7	-36.2	-47.4	-52.8
% of total	5.3	5.1	6.3	4.8	5.4	5.4	6.3	5.5	4.3	4.2	3.4
<b>Baleno</b>	41.2	52.6	46.9	49.8	57.7	54.3	48.4	51.9	46.2	33.0	38.7
Growth (%)	55.3	85.1	49.7	44.2	39.9	3.3	3.4	4.2	-19.8	-39.3	-20.1
% of total	10.5	10.7	10.9	10.9	11.9	11.3	11.5	11.5	11.8	10.1	10.6
<b>Ciaz</b>	15.7	18.4	10.5	14.3	10.7	13.3	12.5	9.7	8.7	5.7	5.7
Growth (%)	14.7	2.9	-32.3	-17.6	-31.7	-27.9	18.7	-32.1	-18.8	-57.1	-54.4
% of total	4.0	3.8	2.4	3.1	2.2	2.8	2.9	2.1	2.2	1.8	1.6
<b>Ertiga</b>	18.8	19.2	13.7	14.4	14.9	12.2	14.9	23.3	24.5	23.9	21.9
Growth (%)	52.0	6.2	-16.5	-13.3	-20.7	-36.5	8.5	61.4	64.9	95.8	46.8
% of total	4.8	3.9	3.2	3.2	3.1	2.5	3.5	5.2	6.3	7.3	6.0
<b>Brezza</b>	31.3	42.9	37.7	36.6	37.2	41.9	39.9	39.0	29.4	22.8	27.7
Growth (%)	44.3	47.1	31.1	25.9	18.6	-2.4	5.8	6.6	-20.8	-45.6	-30.5
% of total	8.0	8.8	8.8	8.0	7.7	8.7	9.4	8.6	7.5	7.0	7.6
<b>Others</b>	367.1	454.7	397.6	422.6	458.6	449.4	399.3	421.0	363.1	299.8	342.5
Growth (%)	14.0	18.8	11.7	10.7	24.9	-1.2	0.4	-0.4	-20.8	-33.3	-14.2
% of total	93.3	92.8	92.8	92.3	94.4	93.8	94.5	93.4	92.7	92.0	93.5
<b>Key Models</b>	367.4	455.1	398.0	423.0	459.0	449.8	399.6	421.4	363.4	300.1	342.7
Growth (%)	14.0	18.8	11.7	10.7	24.9	-1.2	0.4	-0.4	-20.8	-33.3	-14.2
% of total	93.4	92.9	92.9	92.4	94.5	93.9	94.5	93.4	92.8	92.1	93.5
<b>Exports</b>	26.1	34.7	30.5	34.7	26.6	29.4	23.0	29.6	28.1	25.8	23.7
Growth (%)	0.1	12.9	-0.7	9.2	1.9	-15.2	-24.5	-14.6	5.5	-12.4	2.7
% of total	6.6	7.1	7.1	7.6	5.5	6.1	5.5	6.6	7.2	7.9	6.5
<b>Total Volumes</b>	393.5	489.8	428.5	457.7	485.6	479.3	422.7	451.0	391.5	325.9	366.4
Growth (%)	12.9	18.4	10.7	10.6	23.4	-2.1	-1.4	-1.5	-19.4	-32.0	-13.3

Source: Company, MOFSL

**Valuation and view**

**A foreword on the PV industry in long-term:** Indian passenger vehicle industry growth has undershot expectations over the past 5 years (FY13-18 – ~4% CAGR in volumes) due to several factors, including weaker economic growth, poor monsoons in FY15/16 and 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 industry would reach an inflection point at USD3,000-4,000 PCI, driving strong sustainable demand for passenger vehicles. Hence, we estimate PV industry volume CAGR of 8% over FY20-22 (on a low base of ~7% CAGR decline over FY18-20E).

- **Multi-year favorable product lifecycle for MSIL:** We believe MSIL 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 ~10% volume CAGR over FY20-22E. This, coupled with an improvement in mix and reduction in discounts, would drive revenue CAGR of ~12% over FY20-22E.

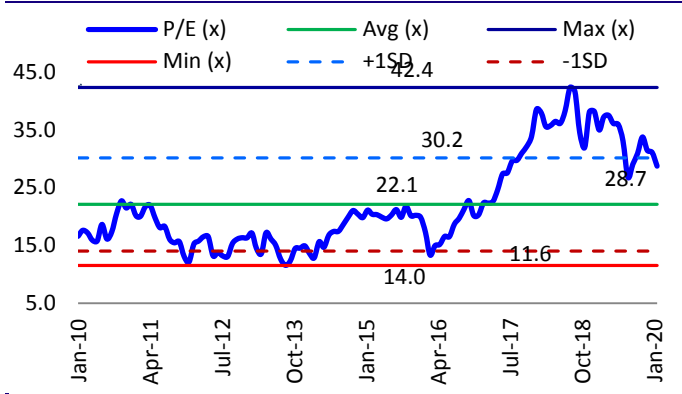
- **Operating performance to recover in FY21E:** While demand improvement will take another 1-2 quarters, operating performance should continue to improve on QoQ basis with margins recovering back to 11.5-12% levels in FY21E. This would be led by (a) normalization of product lifecycle (after no launches 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 Japan 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 INR142b over FY20-22E, after budgeting for cumulative annual capex of ~INR130b. RoCE is estimated to improve gradually from 15% in FY20 to ~21.5% by FY22E.
- **Structural improvement in business to support valuations:** All business parameters such as industry consolidation, market share improvement, reduced Japan exposure and improving share of premium products have improved MSIL's positioning considerably. We see headroom for further improvement in 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 long-period average valuations of 10-year average of 22.1x (5-year average of 27.5x).
- **Buy with TP of ~INR8,000:** We maintain our FY20/FY21 consol. EPS, as reduction in realizations and margins is off-set by small increase in volumes (FY20) as well as reduction in estimates for depreciation and tax. 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 Japan 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 25x Dec'21E core EPS (at ~15% premium to 10-year average P/E), to factor in further improvement in MSIL's positioning. The stock trades at 26.7x/20.6x FY21E/FY22E consol. EPS. Maintain **Buy** with TP of INR8,000 (25x Dec-21 EPS).

#### Exhibit 8: Revised forecast

(INR B)	FY20E			FY21E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
<b>Total Volumes ('000)</b>	<b>1,588</b>	<b>1,556</b>	<b>2.1</b>	<b>1,723</b>	<b>1,721</b>	<b>0.1</b>
Net Sales	773	773	-0.1	855	868	-1.6
EBITDA	77	79	-1.5	102	107	-4.6
<b>EBITDA Margin (%)</b>	<b>10.0</b>	<b>10.2</b>	<b>-10bp</b>	<b>11.9</b>	<b>12.3</b>	<b>-40bp</b>
PAT	58.5	58.0	0.8	76.9	76.9	0.0
<b>Consol. EPS (INR)</b>	<b>200.0</b>	<b>198.5</b>	<b>0.8</b>	<b>261.7</b>	<b>261.6</b>	<b>0.0</b>
Cash EPS (INR)	317.5	321.7	-1.3	382.5	396.1	-3.4
JPY/INR	0.66	0.66	0.0	0.65	0.65	0.0

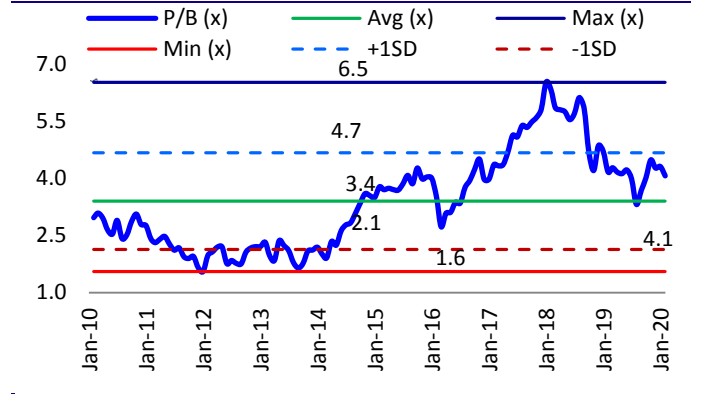
Source: Company, MOFSL

**Exhibit 9: MSIL 1-year forward P/E (x) band**



Source: MOFSL

**Exhibit 10: MSIL 1-year forward P/B (x) band**



Source: MOFSL



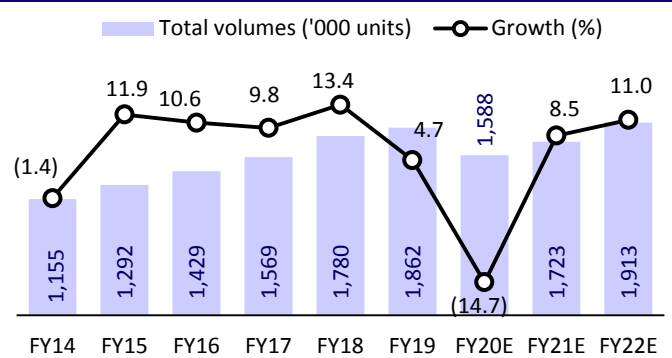
**Story in charts: Expect 30% EPS CAGR over FY20-22E**

**Exhibit 11: Market share gains continue for most segments**

	FY14	FY15	FY16	FY17	FY18	FY19
Mini	76.7	81.4	79.8	67.8	71.3	72.3
Compact	37.6	43.1	42.0	46.2	52.2	56.4
Compact-Sedan	63.8	53.7	58.1	54.8	61.8	57.9
Mid-Size	2.2	15.4	25.2	32.8	30.0	25.8
UV1	21.1	21.4	25.6	38.2	38.8	38.2
<b>Dom. PV</b>	<b>42.1</b>	<b>45.0</b>	<b>46.8</b>	<b>47.4</b>	<b>50.0</b>	<b>51.2</b>

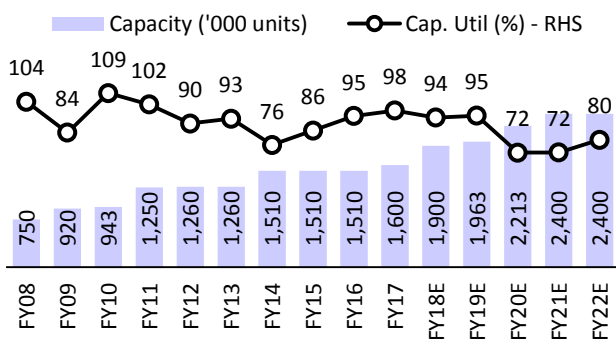
Source: Company, MOFSL

**Exhibit 12: Trend in volumes and growth over FY19-21**



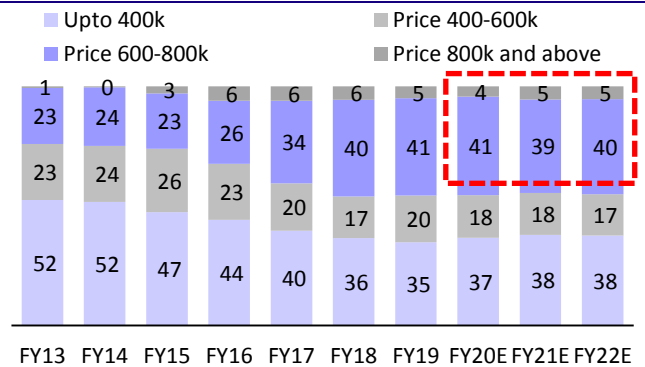
Source: Company, MOFSL

**Exhibit 13: MSIL to operate at peak utilization**



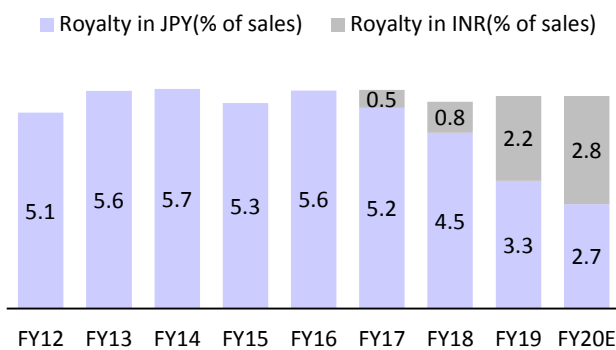
Source: Company, MOFSL

**Exhibit 14: Trend in product mix**



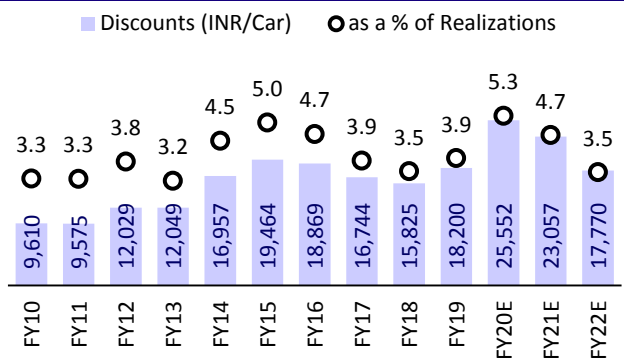
Source: Company, MOFSL

**Exhibit 15: Japan-based royalty to reduce gradually**



Source: Company, MOFSL

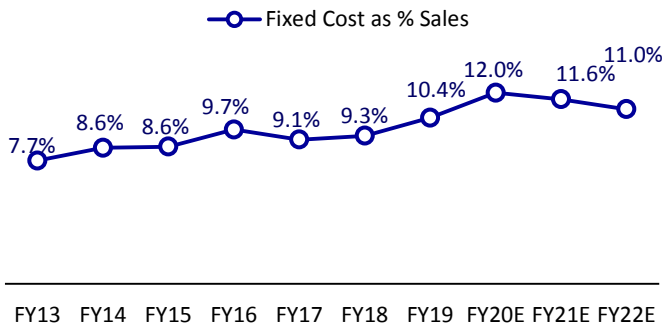
**Exhibit 16: Discounts to normalize in FY20**



Source: Company, MOFSL

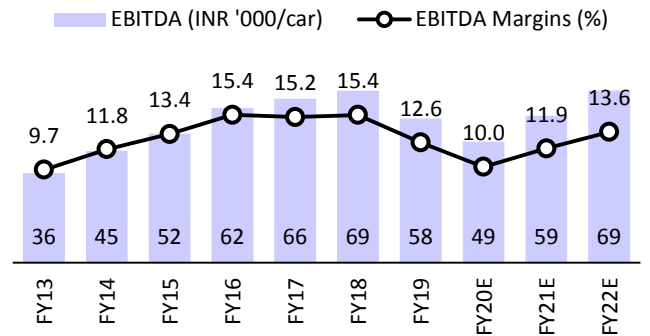


**Exhibit 17: Fixed cost as % of sales**



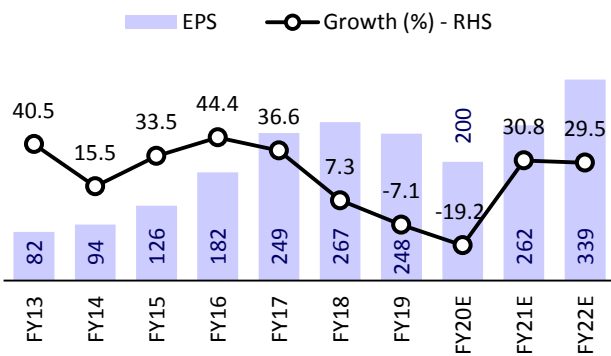
Source: Company, MOFSL

**Exhibit 18: EBITDA margins and EBITDA per car**



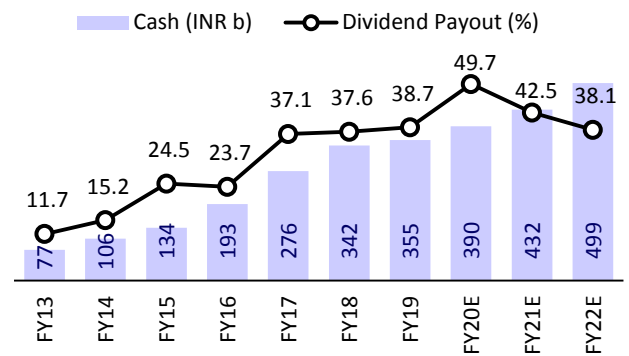
Source: Company, MOFSL

**Exhibit 19: EPS (INR) and growth in EPS**



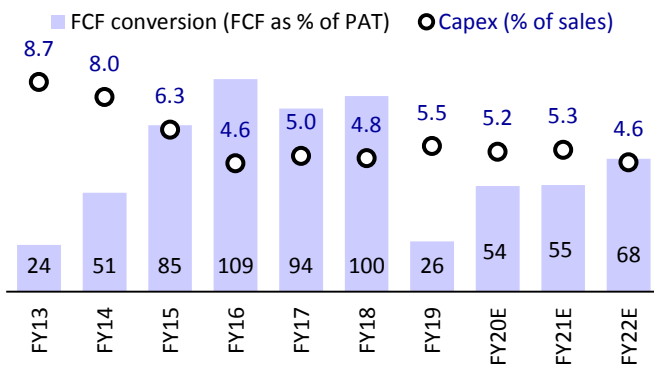
Source: MOFSL, Company

**Exhibit 20: Dividend payout (%) and cash balance (INR b)**



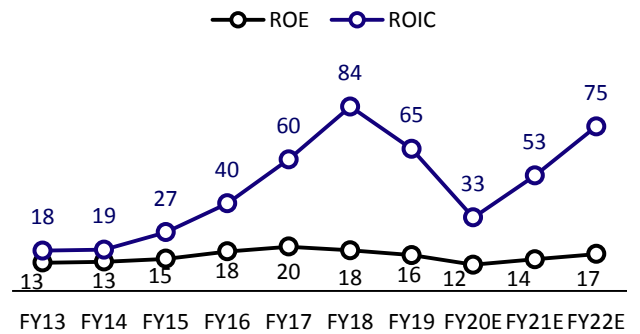
Source: MOFSL, Company

**Exhibit 21: FCF to remain strong (INR b)**



Source: Company, MOFSL

**Exhibit 22: RoE v/s RoIC (%)**



Source: Company, MOFSL

**Exhibit 23: Snapshot of revenue model**

<b>000 units</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
A1/LCVs	0	0	1	10	24	22	22	24
Growth (%)					138.0	-7.0	0.0	10.0
% of Dom vols	0.0	0.0	0.1	0.6	1.4	1.5	1.4	1.3
MPV (Vans)	129	143	152	155	179	119	129	136
Growth (%)	26.3	11.2	6.0	2.1	15.1	-33.4	8.7	5.0
% of Dom vols	11.0	11.0	10.5	9.4	10.2	8.0	8.0	7.5
A2 (other hatchbacks)	730	779	832	936	987	879	960	1,054
Growth (%)	8.6	6.8	6.7	12.5	5.5	-10.9	9.1	9.8
% of Dom vols	62.3	59.7	57.6	56.6	56.3	59.1	59.1	58.1
A3 (Dzire, Ciaz)	244	288	264	299	300	213	241	295
Growth (%)	20.9	18.3	-8.4	13.1	0.3	-29.2	13.6	22.2
% of Dom vols	20.8	22.1	18.3	18.1	17.1	14.3	14.9	16.3
Uvs (Ertiga, Compact SUV)	68	94	196	254	264	254	271	305
Growth (%)	11.6	38.4	107.3	29.6	4.1	-3.9	6.7	12.5
% of Dom vols	5.8	7.2	13.6	15.3	15.1	17.1	16.7	16.8
<b>Total Domestic</b>	<b>1,171</b>	<b>1,305</b>	<b>1,445</b>	<b>1,654</b>	<b>1,754</b>	<b>1,487</b>	<b>1,624</b>	<b>1,814</b>
Growth (%)	11.1	11.5	10.7	14.5	6.1	-15.2	9.2	11.7
% of Total vols	90.6	91.3	92.1	92.9	94.2	93.6	94.2	94.8
Exports	122	124	124	126	109	101	100	100
Growth (%)	20	2	0	2	-14	-7	-1	0
% of Total vols	9	9	8	7	6	6	6	5
<b>Total Volumes</b>	<b>1,292</b>	<b>1,429</b>	<b>1,569</b>	<b>1,780</b>	<b>1,862</b>	<b>1,588</b>	<b>1,723</b>	<b>1,913</b>
Growth (%)	11.9	10.6	9.8	13.4	4.7	-14.7	8.5	11.0
<b>ASP (INR 000/unit)</b>	<b>387</b>	<b>403</b>	<b>434</b>	<b>448</b>	<b>462</b>	<b>487</b>	<b>496</b>	<b>0</b>
Growth (%)	2.0	4.1	7.7	3.3	3.0	5.4	1.9	0.0
<b>Net Sales (INR b)</b>	<b>500</b>	<b>575</b>	<b>680</b>	<b>798</b>	<b>860</b>	<b>773</b>	<b>855</b>	<b>0</b>

Source: MOFSL, Company

## Financials and valuations

Income Statement		(INR Million)					
Y/E March	2016	2017	2018	2019	2020E	2021E	2022E
<b>Net Op Income</b>	<b>5,75,381</b>	<b>6,80,348</b>	<b>7,97,627</b>	<b>8,60,203</b>	<b>7,72,828</b>	<b>8,54,553</b>	<b>9,71,458</b>
Change (%)	15.1	18.2	17.2	7.8	-10.2	10.6	13.7
<b>EBITDA</b>	<b>88,844</b>	<b>1,03,517</b>	<b>1,23,122</b>	<b>1,07,993</b>	<b>77,377</b>	<b>1,01,916</b>	<b>1,32,589</b>
Change (%)	32.3	16.5	18.9	-12.3	-28.3	31.7	30.1
EBITDA Margins (%)	15.4	15.2	15.4	12.6	10.0	11.9	13.6
Depreciation	28,202	26,021	27,579	30,189	35,500	36,497	40,317
<b>EBIT</b>	<b>60,642</b>	<b>77,496</b>	<b>95,543</b>	<b>77,804</b>	<b>41,877</b>	<b>65,418</b>	<b>92,272</b>
EBIT Margins (%)	10.5	11.4	12.0	9.0	5.4	7.7	9.5
Interest	815	894	3,457	758	1,300	1,000	750
Other Income	14,610	23,001	20,455	25,610	33,484	34,250	37,675
EO Expense	0	0	2,507	-2,000	0	0	0
Def Revenue Exp. / Others	0	0	0	0	0	0	0
<b>PBT</b>	<b>74,437</b>	<b>99,603</b>	<b>1,10,034</b>	<b>1,04,656</b>	<b>74,061</b>	<b>98,668</b>	<b>1,29,197</b>
Tax	20,794	26,101	32,816	29,650	15,593	21,725	29,104
Effective tax Rate (%)	27.9	26.2	29.8	28.3	21.1	22.0	22.5
<b>PAT</b>	<b>53,643</b>	<b>73,502</b>	<b>77,218</b>	<b>75,006</b>	<b>58,468</b>	<b>76,943</b>	<b>1,00,093</b>
Change (%)	44.5	37.0	5.1	-2.9	-22.0	31.6	30.1
% of Net Sales	9.5	11.0	9.9	9.0	8.0	9.5	10.9
<b>Adj. PAT</b>	<b>53,643</b>	<b>73,502</b>	<b>78,977</b>	<b>73,573</b>	<b>58,468</b>	<b>76,943</b>	<b>1,00,093</b>
Change (%)	44.5	37.0	7.4	-6.8	-20.5	31.6	30.1

Balance Sheet		(INR Million)					
Y/E March	2016	2017	2018	2019	2020E	2021E	2022E
<b>Sources of Funds</b>							
Share Capital	1,510	1,510	1,510	1,510	1,510	1,510	1,510
Reserves	2,97,332	3,62,801	4,16,063	4,59,905	4,89,324	5,33,589	5,95,557
<b>Net Worth</b>	<b>2,98,842</b>	<b>3,64,311</b>	<b>4,17,573</b>	<b>4,61,415</b>	<b>4,90,835</b>	<b>5,35,099</b>	<b>5,97,067</b>
Loans	774	4,836	1,108	1,496	1,496	1,496	1,496
Deferred Tax Liability	1,943	4,662	5,589	5,640	5,640	5,640	5,640
<b>Capital Employed</b>	<b>3,01,559</b>	<b>3,73,809</b>	<b>4,24,270</b>	<b>4,68,551</b>	<b>4,97,971</b>	<b>5,42,235</b>	<b>6,04,203</b>
<b>Application of Funds</b>							
Gross Fixed Assets	1,53,218	1,86,595	2,14,239	2,63,293	3,09,294	3,54,294	3,99,294
Less: Depreciation	28,118	53,668	80,649	1,09,215	1,44,715	1,81,213	2,21,530
<b>Net Fixed Assets</b>	<b>1,25,100</b>	<b>1,32,927</b>	<b>1,33,590</b>	<b>1,54,078</b>	<b>1,64,579</b>	<b>1,73,081</b>	<b>1,77,764</b>
Capital WIP	10,069	12,523	21,259	16,001	10,000	10,000	10,000
Investments	1,99,322	2,84,810	3,52,902	3,65,150	3,65,150	3,65,150	3,65,150
<b>Curr.Assets, Loans</b>	<b>84,909</b>	<b>77,392</b>	<b>81,841</b>	<b>89,815</b>	<b>1,16,961</b>	<b>1,64,779</b>	<b>2,39,101</b>
Inventory	31,321	32,622	31,608	33,257	33,877	37,460	42,584
Sundry Debtors	13,222	11,992	14,618	23,104	14,821	16,389	18,631
Cash & Bank Balances	391	138	711	1,789	36,598	79,266	1,46,221
Loans & Advances	1,744	978	2,878	5,126	5,126	5,126	5,126
Others	38,231	31,662	32,026	26,539	26,539	26,539	26,539
<b>Current Liab. &amp; Prov.</b>	<b>1,17,841</b>	<b>1,33,843</b>	<b>1,65,322</b>	<b>1,56,493</b>	<b>1,58,719</b>	<b>1,70,775</b>	<b>1,87,812</b>
Sundry Creditors	1,05,748	1,26,001	1,55,025	1,47,399	1,50,584	1,61,107	1,76,161
Provisions	12,093	7,842	10,297	9,094	8,135	9,668	11,652
<b>Net Current Assets</b>	<b>-32,932</b>	<b>-56,451</b>	<b>-83,481</b>	<b>-66,678</b>	<b>-41,758</b>	<b>-5,996</b>	<b>51,289</b>
<b>Appl. of Funds</b>	<b>3,01,559</b>	<b>3,73,809</b>	<b>4,24,270</b>	<b>4,68,551</b>	<b>4,97,971</b>	<b>5,42,235</b>	<b>6,04,203</b>

E: MOSL Estimates

## Financials and valuations

### Ratios

Y/E March	2016	2017	2018	2019	2020E	2021E	2022E
<b>Basic (INR)</b>							
Adjusted EPS	177.6	243.3	261.4	243.6	193.5	254.7	331.3
Consol EPS	182.0	248.6	266.7	247.7	200.0	261.7	338.9
Cash EPS	275.3	334.8	358.0	347.6	317.5	382.5	472.3
Book Value per Share	989	1,206	1,382	1,527	1,625	1,771	1,977
DPS	35.0	75.0	80.0	80.0	80.0	90.0	105.0
Div. payout (%)	23.7	37.1	37.6	38.7	49.7	42.5	38.1
<b>Valuation (x)</b>							
Consol. P/E	38.4	28.1	26.2	28.2	35.0	26.7	20.6
Cash P/E	25.4	20.9	19.5	20.1	22.0	18.3	14.8
EV/EBITDA	21.6	17.7	14.3	16.2	22.1	16.4	12.1
EV/Sales	3.4	2.7	2.3	2.1	2.3	2.1	1.7
P/BV	7.1	5.8	5.1	4.6	4.3	3.9	3.5
Dividend Yield (%)	0.5	1.1	1.1	1.1	1.1	1.3	1.5
FCF Yield (%)	2.8	3.3	3.7	0.9	1.5	2.0	3.2
<b>Profitability Ratios (%)</b>							
RoIC	39.9	60.0	84.1	64.7	33.4	52.6	75.0
RoE	18.0	20.2	18.5	16.3	11.9	14.4	16.8
RoCE	25.0	26.9	27.3	22.1	15.1	18.4	21.5
<b>Turnover Ratios</b>							
Debtors (Days)	8	6	7	10	7	7	7
Inventory (Days)	23	21	17	16	18	18	19
Creditors (Days)	100	98	103	89	99	97	95
Work. Cap. (Days)	-69	-72	-79	-63	-74	-72	-69
Asset Turnover (x)	1.9	1.8	1.9	1.8	1.6	1.6	1.6
<b>Leverage Ratio</b>							
Net Debt/Equity (x)	-0.6	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8

### Cash Flow Statement

(INR Million)

Y/E March	2016	2017	2018	2019	2020E	2021E	2022E
Profit before Tax	74,437	99,603	1,10,034	1,04,656	74,061	98,668	1,29,197
Interest	815	894	3,457	758	1,300	1,000	750
Depreciation	28,202	26,021	27,579	30,189	35,500	36,497	40,317
Direct Taxes Paid	-19,099	-23,214	-30,550	-31,428	-15,593	-21,725	-29,104
(Inc)/Dec in WC	14,631	21,940	28,058	-13,196	9,888	6,906	9,671
Other Items	-14,141	-22,451	-20,728	-25,047	-33,484	-34,250	-37,675
<b>CF from Oper. Activity</b>	<b>84,845</b>	<b>1,02,793</b>	<b>1,17,850</b>	<b>65,932</b>	<b>71,672</b>	<b>87,097</b>	<b>1,13,156</b>
(Inc)/Dec in FA	-26,327	-33,723	-38,653	-47,000	-40,000	-45,000	-45,000
<b>Free Cash Flow</b>	<b>58,518</b>	<b>69,070</b>	<b>79,197</b>	<b>18,932</b>	<b>31,672</b>	<b>42,097</b>	<b>68,156</b>
(Pur)/Sale of Invest.	-45,947	-58,056	-44,168	11,617	33,484	34,250	37,675
<b>CF from Inv. Activity</b>	<b>-72,274</b>	<b>-91,779</b>	<b>-82,821</b>	<b>-35,383</b>	<b>-6,516</b>	<b>-10,750</b>	<b>-7,325</b>
Change in Networkth	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-2,353	2,527	-3,728	388	0	0	0
Interest Paid	-921	-1,095	-3,464	-732	-1,300	-1,000	-750
Dividends Paid	-9,090	-12,725	-27,268	-29,134	-29,048	-32,679	-38,126
<b>CF from Fin. Activity</b>	<b>-12,364</b>	<b>-11,293</b>	<b>-34,460</b>	<b>-29,478</b>	<b>-30,348</b>	<b>-33,679</b>	<b>-38,876</b>
<b>Inc/(Dec) in Cash</b>	<b>207</b>	<b>-279</b>	<b>569</b>	<b>1,071</b>	<b>34,808</b>	<b>42,668</b>	<b>66,955</b>
Add: Op. Balance	183	391	130	699	1,789	36,598	79,266
<b>Closing Balance</b>	<b>390</b>	<b>112</b>	<b>699</b>	<b>1,770</b>	<b>36,597</b>	<b>79,266</b>	<b>1,46,221</b>

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 is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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