

## Background & Business

MSIL is a leading passenger car & utility vehicles manufacturer in India, holding an indomitable position with more than 50% market share. It offers wide range of products in passenger vehicles right from entry level segment to the stylish hatchbacks with its models like - Ritz, A star, Swift, Wagon R, Sedans - Ciaz, Vans – Omni and Eco and SUVs – S-Cross, Ertiga, Grand Vitara and Brezza. It generates ~38% of its volumes from Mini segment, 53% from Compact cars, ~6% from Mid-size segment, ~13% from Utility Vehicles and ~10% from Vans (as on FY17). It has delivered iconic models and has continuously exceeded market expectations by offering cars at attractive price points packed with latest features. MSIL being placed at an enviable position is likely to reap maximum from this burgeoning opportunity through its indomitable brand reputation especially in the entry level to compact to mid segment cars, deep understanding of customer preferences, an unmatched distribution reach, efficient after sales service through easy availability of tools, spares & repair, good resale value through Maruti True Value and other auxiliaries like financing and car insurance.

From : 22-01-2016  
 To : 31-05-2017  
 Performance : 75%  
 Recommendation : OPEN

## Investment Thesis

MSIL has an enviable position in the Passenger vehicle segment with a market share more than 50% and presence across all PV segments – from entry level to compact to mid segment. Going ahead, MSIL's sector outperformance would be led by the following factors:

- Changing image of MSIL from entry level car maker to premium car maker** (new launches in the premium segment such as S-Cross, Baleno, Vitara Brezza and Ciaz have given the company foothold in the premium segment).
- Premiumization of sales mix** (transformations such as starting of “Nexa” showrooms for sale of premium cars, rolling out smart hybrid vehicles, packing in the latest infotainment features, etc.).
- Nexa outlets a game-changing strategy** (MSIL launched the “NEXA” retail channel to expand presence in Metro and Tier-I,II areas and to adapt to changing needs and expectations of urban buyers. The number of “Nexa” outlets has grown from zero in FY15 to 150 in FY16 and 200 in FY17).
- Improving exports** (starting from Baleno, which was first MSIL model to be exported to Japan, the company now exports to nearly 100 countries. Share of Sri Lanka in overall exports increased to nearly 35% from 10% in previous year).
- Strengthening R&D capabilities** (The management has guided for capex of Rs. 45bn in FY18 versus Rs. 32bn in FY17. A large of this is expected to be directed towards product development, R&D, land acquisition and maintenance. The support from parent Suzuki Japan immensely benefits MSIL w.r.t. technological development).
- Cost saving through localization** (The company has saving substantially over the past few years due to localization of child parts, assembly operations of its popular Auto Gear Shift Technology, etc.).

## Outlook

We believe that the overall strength of the MSIL's business model - in terms of its product offerings, value for money proposition, new models that have garnered very strong response as well as pan-India dealership network all augur extremely well for the business and as the dust around currency availability settles; It is likely to be the biggest beneficiary of the spurt in demand due to decline in interest rates and government initiatives to boost consumption; we would attribute a rather “hockey-stick” growth over the medium-term. Hence we would strongly recommend investors, to use any correction as an opportunity to add to the stock.



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