

## Background & Business

MSIL is a leading passenger car & utility vehicles manufacturer in India, holding an indomitable position with close to 50% market share (as per Q2FY18 volume data). 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 34% of its volumes from Mini segment, 61% from Compact cars, 4% from Mid-size segment, 14% from Utility Vehicles and 7% from exports (as on Q2FY18). 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 : 30-11-2017  
 Performance : 110%  
 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 to 200 in FY17 and 280 as on Sep 2017).
- Suzuki-Toyota partnership-a landmark** (The alliance strongly suggests that even in the next big change in the auto segment (EVs, autonomous driving and sharing), MSIL will continue to dominate as peers are unlikely to have MSIL's scale and Toyota's R&D to launch mass Evs and turn profitable).
- Strengthening R&D capabilities** (The management has guided for capex of Rs. 40bn in FY18 versus Rs. 32bn in FY17. A large part 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).

## Outlook

MSIL is the only car company in India to consistently gain share. The NEXA format of stores has been attracting younger customers to MSIL's dealerships. The management has stated that nearly 50% of the walk-ins at NEXA are new non-MSIL owners. MSIL also stands to gain from the next generation of autos (EVs, autonomous driving and sharing), due to the Suzuki –Toyota partnership, which will work toward future technologies. All in all we believe that MSIL is well placed to further cement its position in the Indian auto segment driven by a likely pickup in volume growth, mix improvement leading a rise in ASPs, discounts reducing and volume recovery across industry.

