

Sell**Maruti Suzuki India Ltd.**

Industry: Auto and Auto Components

Industry View: Neutral

Result Update**“Not yet completely out of the woods”****Q2 FY 13 results above expectations**

In Q2 FY13, Maruti's volumes decreased by 8.7% yoy and 22% qoq, while net realizations grew by 17.3% yoy and declined by 1.3% qoq as the company doled out higher discounts sequentially on petrol products. Net sales grew by 7.1% yoy while they declined by 23% qoq on weak sequential volumes stemming from the labour disruption at the Manesar plant for one full month in the quarter. RM cost to sales showed a sharp growth to 81.9% of sales v/s 79.7% qoq and 81.7% yoy. This was due to adverse currency impact on indirect imports and higher invoice discounts. Employee costs to sales moved up strongly to 2.9% from 2.3% qoq and 2.6% yoy due to wage hike taken during the quarter. On the other hand, other expenses to sales softened to 11.8% v/s 12.9% qoq and 13% yoy as royalty expenses reduced to 5.4% of sales due to favorable exchange rates on royalty payments and reduction in ad expenses and selling & other overhead expenses. This was better than our expectations due to which EBITDA margins came in at 6.3% which was higher than our expectations of 5.4%. Margins were lower than 6.5% yoy and 7.5% qoq. Depreciation expenses went up by 30% yoy as Manesar Phase B is ramping up production, while interest costs moving up by 15% qoq and >3x yoy to Rs 380mn which indicates possible short term loans raised for funding capex as cashflows are under stress. Net profits declined by just 5% yoy to Rs2,275 mn as tax rate(18.7%) capped further downside in bottomline.

No significant demand improvement in site

With macro indicators still remaining bleak with overall growth forecast of the economy getting lowered and no respite for inflation, we do not see interest rates coming down in a hurry. Consumer sentiments may remain slightly inflated according to the management during the ongoing festive season, however, for the full year we do not see demand growing beyond 3-4% for passenger cars. We foresee pressure building up on the petrol product portfolio as even higher discounts are failing to fetch any great interest for them as petrol prices are continuously inching up. In Q2 the discounts were at Rs 14,750 v/s Rs 12,600 in Q2 FY12 and Rs11,646 in Q1 FY13. Although the company is positive about its diesel portfolio, they will be able to produce not more than 6,00,000 units of diesel vehicles in FY 14, beyond which they may have to increase their diesel engine capacities. Although the company is ramping up the production at Manesar B phase, the overall demand still remains weak.

The recently launched Alto800 has an order book of just 30,000 units which according to us is not a high number considering the monthly sales of Alto which used to range around 20,000-22,000 during times of high demand. Hence the waiting period amounts to just 1-1.5 months for it which clearly indicates demand for petrol portfolio still struggling. On expectations of marginally better Diwali season, we have upped our domestic volume estimates to 3%/15% for FY 13E/14E and estimate exports to grow at -7%/7% in the same period. We believe FY 14E to be a better year for Maruti considering some easing in the macro scenario and a low base effect.

Stock Data

Current Market Price (₹)	1,430
Target Price (₹)	1,291
Potential upside (%)	(10)
Reuters	MRTI.BO
Bloomberg	MSIL IN

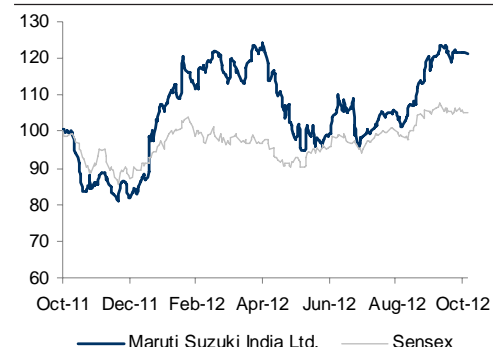
What's Changed

12 month PriceTarget (₹)	1,123 to 1,291
F2013 EPS (₹)	62 to 65
F2014 EPS (₹)	86 to 92

Key Data

Market Cap (₹bn)	403
52-Week Range (₹)	1,428 / 900
Avg. Daily Trading Value (₹mn)	1,144
Promoters (%)	54
FII Holding (%)	20
DII Holding (%)	16
Public & Others Holding (%)	9

Fiscal YE	FY11	FY12	FY 13E	FY 14E
Total sales	366,184	355,871	403,402	478,557
EBITDA margins(%)	10.1	7.2	7.0	8.6
PAT margins(%)	6.4	4.7	4.8	5.7
EPS (₹s)	79.2	56.6	65.1	92.2
P/E (x)	18.1	25.3	22.0	15.5
P/B(x)	3.0	2.7	2.5	2.2
EV/EBITDA (x)	10.8	15.6	14.4	9.8
ROE(%)	16.5	10.8	11.3	14.1
ROCE(%)	14.7	3.5	4.8	10.3
Dividend yield (%)	0.6	0.6	0.6	0.6

Relative Price Performance**One Year Indexed**

(%)	1 Month	3 Months	12 Months
Absolute	1	22	21
BSE Relative	2	(13)	16

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Ashwin Patil

ashwin_patil@lkpsec.com

+91 22 6635 1271

Margins expected to come close to 7% in FY 13 and improve in FY 14

The shutdown at Manesar along with higher discounting on petrol models led margins to fall to 6.3% in Q2 FY13. Also unfavorable currency impact on indirect imports led to this fall. Going forward, the company will incur higher ad and marketing expenses for the promotion of recently launched Alto800 and higher Alto 800 sales in the portfolio may hamper their margins as it is a low margin product. In FY 14E, however, we positively expect labor issues to settle down and diesel engine supply improves (though there remains a cap on diesel engine production), thus providing a leeway for margins to improve. Demand also may return back with diesel cars offsetting higher discounts on petrol cars and expectations of interest rates getting cut in medium term. This coupled with softening of raw material may help the company to improve margins. We expect 7%/8.6% margins in FY 13/FY 14E respectively.

Outlook and Valuation

With better than expected results, we are slightly revising our estimates for volumes as well as margins for FY 13 as well as FY 14. However, we still believe that volume scenario remains weak for MSIL despite new launches and higher festive sales, as they may be just an aberration as the broad picture shows no signs of revival. FY 14E may bring some ray of hope through expectations of macros improving. Hence, we have raised the valuation multiple from 13.5x to 14x and the valued the company on FY 14 earnings of Rs 92.2 from earlier estimate of Rs86.4 and arrive at a target price of Rs 1,291. We believe the company is overly valued at current levels and trades at 15.5x times FY 14E earnings and the positives of FY 14 are already priced in. We maintain SELL on the stock with a downside of 10%.

Per unit parameters (₹)	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY 12	Q4 FY12	Q1 FY13	Q2 FY13
Gross Realisation	313,978	322,386	327,813	332,833	356,309	352,845	401,224	389,188
Net Realisation	280,529	287,288	293,279	298,741	319,948	318,770	355,843	350,304
Material Cost	225,152	229,012	234,356	244,010	260,648	259,004	283,555	286,963
Employee cost	7,029	4,468	6,371	7,905	8,726	7,104	8,052	10,210
EBITDA/unit	27,270	29,409	28,785	19,587	17,456	23,825	26,573	22,077
PAT/unit	17,091	19,219	19,508	9,530	8,622	17,757	14,322	9,876

Rs mn	Q2 FY13	Q1 FY13	% qoq	Q2 FY12	% yoy	H1 FY13	H1 FY12	% yoy
Total income	83,055	107,782	(22.9)	78,316	6.1	190,836	160,882.0	18.6%
Raw material costs	66,110	83,903	(21.2)	61,566	7.4	150,012	127,542.8	17.6%
Employee costs	2,352	2,383	(1.3)	1,995	17.9	4,735	3,788.1	25.0%
Other expenses	9,507	13,633	(30.3)	9,814	(3.1)	23,140	18,480.5	25.2%
EBITDA	5,086	7,863	(35.3)	4,942	2.9	12,949	13,045.5	-0.7%
<i>EBITDA margins %</i>	6.3%	7.5%	(120 bps)	6.5%	(20 bps)	6.8%	8.1%	(130 bps)
Depr.& Amortization	3,470	3,399	2.1	2,664	30.3	6,870	5,088.4	35.0%
Interest expenses	380	332	14.7	109	248.1	712	166.7	326.9%
Other income	1,563	1,123	39.2	1,177	32.8	2,686	3,018.3	-11.0%
PBT	2,799	5,255	(46.7)	3,346	(16.4)	8,054	10,808.7	-25.5%
Tax	524	1,018	(48.5)	942	(44.4)	1,541	2,912.2	-47.1%
PAT	2,275	4,238	(46.3)	2,404	(5.4)	6,513	7,896.5	-17.5%
Exceptional items	-	-	N/A	-	N/A	-	-	N/A
Adjusted PAT (Rs)	2,275	4,238	(0.5)	2,404	(5.4)	6,513	7,896.5	-17.5%

Financial Summary (Standalone)

Income statement

YE Mar (₹mn)	FY11	FY12	FY 13E	FY 14E
Total Revenues	366,184	355,871	403,402	478,557
Raw Material Cost	283,640	281,083	317,514	369,649
Employee Cost	7,036	8,438	9,142	10,196
Other Exp	39,124	41,220	49,108	58,473
EBITDA	36,384	25,130	27,639	40,239
<i>EBITDA Margin(%)</i>	<i>10.1</i>	<i>7.2</i>	<i>7.0</i>	<i>8.6</i>
Other Income	5,088	8,269	7,800	7,000
Depreciation	10,135	11,384	11,606	13,041
EBIT	31,337	22,015	23,833	34,198
EBIT Margin(%)	8.7	6.3	6.1	7.3
Interest	250	552	620	900
PBT	31,087	21,463	23,213	33,298
PBT Margin(%)	8.7	6.2	5.9	7.1
Tax	8,201	5,111	4,410	6,660
PAT	22,886	16,352	18,802	26,638
<i>PAT Margins (%)</i>	<i>6.4</i>	<i>4.7</i>	<i>4.8</i>	<i>5.7</i>
Adj PAT	22,886	16,352	18,802	26,638
<i>Adj PAT Margins (%)</i>	<i>6.4</i>	<i>4.7</i>	<i>4.8</i>	<i>5.7</i>

Key Ratios

YE Mar (mn)	FY11	FY12	FY 13E	FY 14E
Per Share Data (Rs)				
Adj. EPS	79.2	56.6	65.1	92.2
CEPS	114.6	96.0	105.2	137.3
BVPS	479.8	525.5	576.2	654.0
DPS	8.7	8.7	8.7	8.7
Growth Ratios(%)				
Total revenues	23.8	-3.2	13.5	19.0
EBITDA	-7.9	-30.9	10.0	45.6
PAT	-8.3	-28.5	15.0	41.7
EPS Growth	-8.3	-28.5	15.0	41.7
Valuation Ratios (X)				
PE	18.1	25.3	22.0	15.5
P/CEPS	12.5	14.9	13.6	10.4
P/BV	3.0	2.7	2.5	2.2
EV/Sales	1.1	1.1	1.0	0.8
EV/EBITDA	10.8	15.6	14.4	9.8
Operating Ratios (Days)				
Inventory days	10.4	8.0	8.0	8.0
Receivable Days	8.4	9.9	10.5	11.0
Payables day	0.3	11.3	12.0	12.0
Net Debt/Equity (x)	0.01	0.00	0.00	0.00
Profitability Ratios (%)				
ROCE	14.7	3.5	4.8	10.3
ROE	16.5	10.8	11.3	14.1
Dividend payout	11.0	15.4	13.4	9.4
Dividend yield	0.6	0.6	0.6	0.6

Source: Company, LKP Research

Balance sheet

YE Mar (₹mn)	FY11	FY12	FY 13E	FY 14E
Equity and Liabilities				
Equity Share Capital	1,445	1,445	1,445	1,445
Reserves & Surplus	137,230	150,429	165,078	187,564
Total Networth	138,675	151,874	166,523	189,009
Total debt	1,390	0	200	200
Net Deferred Tax	1,644	3,023	3,100	3,300
Other long term liabilities	959	966	980	1,000
Long term provisions	1,396	1,683	1,983	2,283
Current Liab & Prov	40,187	65,476	74,727	88,841
Short term borrowings	312	10,783	12,354	14,410
Other current liabilities	9,930	15,892	18,788	21,916
Trade payables	26,083	33,499	37,877	46,356
Total provisions	3,862	5,302	5,708	6,158
Total Equity & Liabilities	184,251	223,022	247,513	284,632
Assets				
Net block	54,837	73,108	82,616	90,075
Capital WIP	8,625	6,114	5,500	5,000
Intangible Assets	457	2,099	3,100	3,500
Non current Investments	11,112	13,933	15,933	17,933
Other non current assets	13,018	16,978	20,915	24,865
Total fixed assets	88,049	112,232	128,064	141,373
Current investments	39,956	47,541	55,541	61,541
Cash and Bank	25,085	24,361	17,058	23,924
Inventories	14,150	17,965	20,550	23,525
Trade receivables	8,245	9,376	11,331	14,121
Loan, Advances & others	8,766	11,547	14,968	20,148
Other current assets	1,930	3,764	5,121	7,028
Total current Assets	96,202	110,790	119,449	143,259
Total Assets	184,251	223,022	247,513	284,632

Cash Flow

YE Mar (₹mn)	FY11	FY12	FY 13E	FY 14E
PBT	31,088	21,463	23,213	33,298
Depreciation	10,135	11,384	11,606	13,041
Interest	(1,833)	(3,484)	620	900
Chng in working capital	1,503	(1,040)	(6,711)	(2,830)
Tax paid	(9,888)	(2,509)	(4,410)	(6,660)
Other operating activities	(2,812)	(3,519)	637	(1,050)
CF from operations (a)	28,193	22,294	24,955	36,699
Capital expenditure	(21,427)	(26,325)	(20,500)	(20,000)
Chng in investments	21,270	(7,818)	(2,000)	(2,000)
Other investing activities	3,587	4,960	(7,133)	(4,735)
(Inc)/dec in Intangible assets	0	0	(1,001)	(400)
(Inc)/dec in Other non current assets	0	0	(11,092)	(9,295)
CF from investing (b)	3,430	(29,183)	(29,633)	(26,735)
Free cash flow (a+b)	31,623	(6,889)	(4,678)	9,964
Inc/dec in borrowings	(3,703)	10,471	514	320
Dividend paid (incl. tax)	(2,084)	(2,518)	(2,518)	(2,518)
Other financing activities	(1,734)	(1,788)	(620)	(900)
CF from financing (c)	(7,521)	6,165	(2,624)	(3,098)
Net chng in cash (a+b+c)	24,102	(724)	(7,302)	6,866
Closing cash & cash equiv.	25,084	24,361	17,058	23,924

Team LKP

Pratik Doshi	Director	98210 47676		pratik_doshi@lkpsec.com
S. Ranganathan	Head of Research	98212 22510	6635 1270	s_ranganathan@lkpsec.com
Ashwin Patil	Research Analyst	98195 78395	6635 1271	ashwin_patil@lkpsec.com
Chirag Dhaifule	Research Analyst	9867980172	6635 1220	chirag@lkpsec.com
Hardik Mehta	Sales	98190 66569	6635 1246	hardik_mehta@lkpsec.com
Varsha Jhaveri	Sales	93241 47566	6635 1296	varsha_jhaveri@lkpsec.com
Hitesh Doshi	Sales	93222 45130	6635 1281	hitesh_doshi72@lkpsec.com
Bharat Shah	Dealing	98337 97256	6635 1210	bharat_shah@lkpsec.com
Kaushik Doshi	Dealing	93205 23595		kaushik__doshi@lkpsec.com
