

MARUTI SUZUKI INDIA

High input costs dent margins

India Equity Research | Automobiles



Maruti Suzuki's (MSIL) Q2FY13 PAT at INR2.3bn (down 26% YoY and 46% QoQ) was 28% below our expectations at INR3.2bn due to higher raw material costs (160bps) which partially offset a positive surprise on revenues. We are sanguine on MSIL's prospects given that (1) RBI would start lowering interest rates, (2) commodity and crude prices would stay benign, (3) faster ramp up in production at Manesar unit and (4) management guidance on diesel vehicle production for the year is encouraging. Given the favourable outlook, we restore our valuation multiple to 16x FY14E core EPS of INR87. Maintain 'BUY' with a revised TP of INR1,595 (INR1,413).

EBITDA disappoints on adverse forex movement

MSIL disappointed on EBITDA (INR 5.1bn versus estimate of INR 5.9bn) despite a positive surprise on revenues (INR 83bn versus estimate of INR 80bn; driven by higher realizations). EBITDA margins at 6.1% were lower than the estimated 7.4% due to higher raw material costs as % sales (adverse forex movement). Consequently, PAT at INR 2.3bn disappointed as against the estimate of INR 3.2bn.

Profitability to improve going ahead

Last five quarters have been very challenging for the company due to production disruptions and higher input costs which resulted in lower margins at ~7% compared to ~10% earlier. We expect margins to improve in coming quarters and normalize at over 9.5% in FY14 due to superior product mix, lower discounts and other cost reduction measures taken by the company.

Outlook and valuations: Favourable; maintain 'BUY'

Despite the near term headwinds (production disruptions, commodity cost push etc), restoration of production at peak levels, falling interest rates as well in commodity prices augur well for Maruti Suzuki's long term demand and profitability outlook. We maintain our 'BUY' rating on the stock with a revised target price of INR1,595 (INR1,413), implying 16x FY14E core EPS of INR87 plus, and a discounted NPV of cash/share of INR209. Adverse currency movement remains a key downside risk.

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

MARKET DATA (R: MRTI.BO, B: MSIL IN)

CMP	: INR 1,391
Target Price	: INR 1,595
52-week range (INR)	: 1,429 / 900
Share in issue (mn)	: 288.9
M cap (INR bn/USD mn)	: 402 / 7,440
Avg. Daily Vol.BSE/NSE('000)	: 889.2

SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters*	54.2	54.2	54.2
MF's, FI's & BK's	16.2	16.4	15.8
FII's	20.4	20.3	21.4
Others	9.2	9.1	8.5

* Promoters pledged shares : NIL
(% of share in issue)

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Auto Index
1 month	3.0	(1.8)	7.8
3 months	24.2	7.7	12.0
12 months	23.5	4.4	27.9

Financials

(INR mn)

Year to March	Q2FY13	Q2FY12	% change	Q1FY13	% change	FY12E	FY13E	FY14E
Net rev.	80,701	75,375	7.1	105,292	(23.4)	359,104	447,574	520,156
EBITDA	5,085	5,612	(9.4)	7,863	(35.3)	26,536	33,227	51,117
Adj. net profit	1,844	3,074	(40.0)	4,238	(56.5)	17,792	20,257	30,320
Diluted EPS (INR)	6.4	10.6	(40.0)	14.7	(56.5)	61.6	70.1	104.9
Diluted PE (x)						22.7	19.9	13.3
EV/EBITDA (x)						12.5	10.2	6.3
ROACE (%)						14.8	15.9	24.5

Sachin Gupta

+91 22 6623 3472
sachin.gupta@edelcap.com

Ashish Poddar

+91 22 6620 3099
ashish.poddar@edelcap.com

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Key highlights of the earnings concall:

Financial results highlights:

- Gross margin at 20.4% (22.2% in Q1FY13) was a major disappointment. Adverse forex impact on indirect imports and higher discounts were main reasons for this, as cited by the management.
- Raw material costs to remain a concern due to high volatility in currency movement.
- Average discounts for the quarter stood at INR14,750/vehicle compared to INR11,500 in Q1FY13 and INR12,600 in Q2FY12.
- The company is making efforts to keep other expenses (as % revenue) at low levels. This was visible in the quarter results as well which stood lower despite a lower production. Royalty (as % revenue) was also lower at 5.4% (vs 6% in Q2FY12) due to reversal of excess provisioning done in Q1FY13.
- The company had an MTM gain of INR430mn on commodities and was added to the non operating income.

Festive season check

- Festive season so far has been healthy with increasing demand for the entry level petrol cars as well.
- Preference towards models with diesel options remained high.
- Recent policy actions taken by the government has also helped improve buyer sentiment.

Other highlights

- Total diesel car sales during quarter stood at 70k units compared to 100k units sold in Q1FY13.
- The new Alto 800 has received good response with over 30,000 booking so far.
- Manesar plant has reached a level of 1600 units/day and would touch a peak capacity of 1800 units soon.
- The company would pay a onetime lump sum royalty to Suzuki in Q3FY13 on account of new Alto.

Outlook

- The company maintains to sell 400k units of diesel vehicles (peak capacity) in FY13 despite production disruptions at Manesar plant.
- The company is quite confident of an improvement in margins which will be supported by improving sales mix towards diesel vehicles, lower discounts due to lower contribution of petrol cars and efforts taken on overall cost reductions.
- Tax rate (% PBT) would remain at ~20%.
- The company maintains its capex guidance of INR3bn of which INR1.2bn has already been spent so far.

Table 1: SOTP valuations

	FY14E	Remark
Cash / Share	297	
NPV (cash/share)	262	at 13.5% interest rate
NPV (cash/share)	209	20% discount
Core EPS	87	
TP	1,595	at 16x core EPS

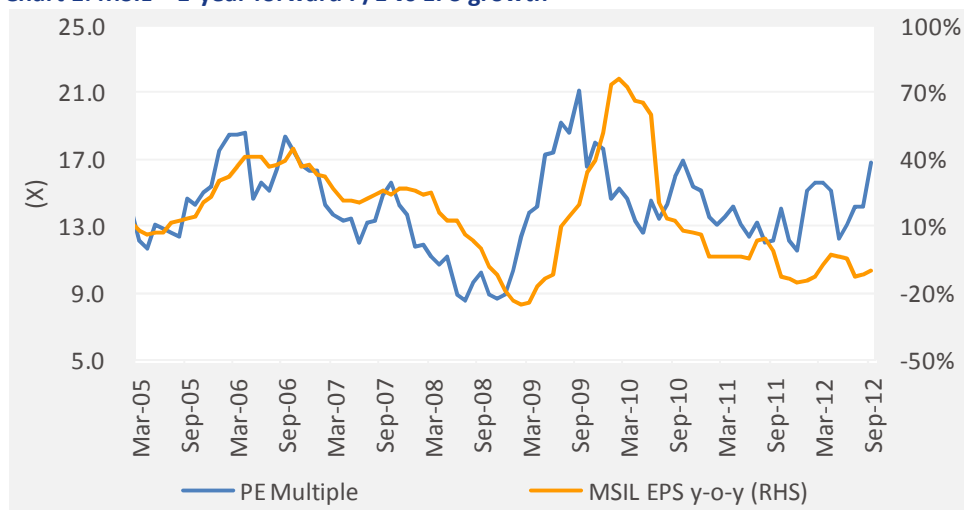
Source: Edelweiss research

Table 2: Volume assumptions

	FY10	FY11	FY12E	FY13E	FY14E
Domestic sales	870,790	1,132,747	1,006,316	1,089,880	1,249,992
Exports	147,575	138,266	127,379	128,054	140,859
Total	1,018,365	1,271,013	1,133,695	1,217,934	1,390,851

Source: Edelweiss research

Chart 1: MSIL – 1-year forward P/E vs EPS growth



Source: Factset, Edelweiss research

Table 3: Edelweiss vs Bloomberg estimates

(INRmn)	FY13E			FY14E		
	Edelweiss	Consensus	Var (%)	Edelweiss	Consensus	Var (%)
Sales	447,574	425,410	5.2	520,156	506,012	2.8
EBITDA	33,227	32,048	3.7	51,117	44,000	16.2
EBITDA margin (%)	7.4	7.5		9.8	8.7	
EPS (INR)	70.1	66.3	5.7	104.9	92.7	13.2

Source: Bloomberg, Edelweiss research

Financial snapshot

Volume analysis

Year to March	Q2FY13	Q2FY12	% change	Q1FY13	% change	FY12	FY13	FY14
Volumes								
Units sold (nos)	230,376	252,307	(8.7)	295,896	(22.1)	1,133,695	1,217,934	1,390,851
Domestic	209,954	222,406	(5.6)	263,264	(20.2)	1,006,316	1,089,880	1,249,992
Exports	20,422	29,901	(31.7)	32,632	(37.4)	127,379	128,054	140,859
Realisation (INR)	350,302	298,741	17.3	355,843	(1.6)	320,174	370,290	376,433

Financial analysis

(INR mn)

Year to March	Q2FY13	Q2FY12	% change	Q1FY13	% change	FY12	FY13	FY14
Revenues (net)	80,701	75,375	7.1	105,292	(23.4)	350,074	436,813	507,202
Other operating income	2,353	2,342	0.5	2,489	(5.5)	9,030	10,760	12,954
Total revenues	83,054	77,716	6.9	107,782	(22.9)	359,104	447,574	520,156
Raw material	66,110	61,566	7.4	83,903	(21.2)	284,244	352,325	400,010
Staff costs	2,352	1,995	17.9	2,383	(1.3)	8,438	10,911	12,875
Other expenses	9,507	8,544	11.3	13,633	(30.3)	39,886	51,111	56,155
Total expenditure	77,969	72,104	8.1	99,919	(22.0)	332,568	414,347	469,039
EBIDTA	5,085	5,612	(9.4)	7,863	(35.3)	26,536	33,227	51,117
Other income	1,133	1,177	(3.8)	1,123	0.9	8,209	7,142	7,256
Interest	380	109	248.1	332	14.7	548	1,100	1,100
Depreciation	3,470	2,664	30.3	3,399	2.1	11,294	13,789	15,739
PBT	2,368	4,016	(41.0)	5,255	(54.9)	22,903	25,481	41,534
Tax	524	942	(44.4)	1,018	(48.5)	5,111	5,224	11,214
Adjusted net profit	1,844	3,074	(40.0)	4,238	(56.5)	17,792	20,257	30,320
Reported Net profit	2,274	2,404	(5.4)	4,238	(46.3)	17,122	20,257	30,320
Adjusted EPS (INR)	6.4	10.6	(40.0)	14.7	(56.5)	61.6	70.1	104.9

Margin analysis (% net revenues)

Year to March	Q2FY13	Q2FY12	bps var	Q1FY13	bps var	FY12	FY13	FY14
Raw material	79.6	79.2	38.0	77.8	175.3	79.2	78.7	76.9
Staff costs	2.8	2.6	26.6	2.2	62.2	2.3	2.4	2.5
Other expenses	11.4	11.0	45.3	12.6	(120.2)	11.1	11.4	10.8
EBIDTA	6.1	7.2	(109.8)	7.3	(117.2)	7.4	7.4	9.8
Adjusted net profit	2.2	4.0	(173.5)	3.9	(171.1)	5.0	4.5	5.8
Tax rate	22.1	20.4	170.8	19.4	274.9	22.3	20.5	27.0

Company Description

MSIL is India's largest passenger vehicle manufacturer with more than 50% market share. It is a key player in the compact car segment with a dominant market share. Suzuki Motor Corporation (Suzuki) of Japan holds 54% stake in the company. MSIL offers the widest product range in passenger cars (10 models), with special focus on the compact car segment (five models).

Investment Theme

Despite the near term headwinds (production disruptions, commodity cost push etc), restoration of production at peak levels, falling interest rates as well in commodity prices augur well for Maruti Suzuki's long term demand and profitability outlook.

Key risks

Adverse forex movement

Depreciation in INR or appreciation in JPY poses downside risk to Maruti's earnings given 20% of raw material and Royalty (which is 5% of sales) are denominated in JPY.

Prolonged slowdown in petrol cars segment

Continuing slowdown in entry levels petrol cars segment, where Maruti is the leader, poses downside risks to our volume estimates.

Financial Statements

Key Assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
Macro -	GDP(Y-o-Y %)	8.4	8.4	6.5	5.8	6.5
	Inflation (Avg)	3.6	9.9	8.8	7.8	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.5	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	52.0
Sector -	Cars - domestic vol. (% YoY)	25.3	29.7	2.0	6.0	15.0
	UV - domestic vol. (% YoY)	21.0	18.9	16.5	20.0	25.0
	Steel prices (INR/t)	32,792	36,854	38,500	39,200	39,200
	Aluminium prices (USD/t)	1,868	2,257	2,316	2,300	2,400
Company -	Cars - domestic vol. (% YoY)	20.2	26.2	(11.5)	1.9	15.9
	UV - domestic vol. (% YoY)	23.2	58.0	(9.4)	44.8	9.7

Income statement

(INR mn)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Income from operations	296,231	369,199	359,104	447,574	520,156
Materials costs	224,134	287,943	284,244	352,325	400,010
Manufacturing expenses	26,952	38,068	39,886	51,111	56,155
Employee costs	5,456	7,036	8,438	10,911	12,875
Total operating expenses	256,542	333,047	332,568	414,347	469,039
EBITDA	39,689	36,153	26,536	33,227	51,117
Depreciation & Amortization	8,250	10,135	11,294	13,789	15,739
Non-Operational Income	4,956	4,765	8,209	7,142	7,256
Interest expenses	335	244	548	1,100	1,100
Profit before tax	36,059	30,539	22,903	25,481	41,534
Provision for tax	10,949	8,202	5,111	5,224	11,214
Net profit	25,110	22,337	17,792	20,257	30,320
Extraordinary income/ (loss)	135	(550)	670	-	-
Profit After Tax	24,975	22,886	17,122	20,257	30,320
Diluted EPS (INR)	86.9	77.3	61.6	70.1	104.9
Dividend payout (%)	6.9	9.7	9.7	11.4	7.6

Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
Materials costs	75.7	78.0	79.2	78.7	76.9
S G & A expenses	9.1	10.3	11.1	11.4	10.8
EBITDA margins	13.4	9.8	7.4	7.4	9.8
Net profit margins	8.5	6.0	5.0	4.5	5.8

Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	42.1	24.6	(2.7)	24.6	16.2
EBITDA	96.8	(8.9)	(26.6)	25.2	53.8
PBT	93.9	(15.3)	(25.0)	11.3	63.0
EPS growth (%)	79.0	(11.0)	(20.3)	13.9	49.7

Balance sheet						(INR mn)
As on 31st March	FY10	FY11	FY12	FY13E	FY14E	
Equity capital	1,445	1,445	1,445	1,445	1,445	
Reserves & surplus	116,906	137,230	152,994	170,547	198,162	
Shareholders funds	118,351	138,675	154,439	171,992	199,607	
Secured loans	265	312	312	312	312	
Unsecured loans	7,949	2,781	2,781	2,781	2,781	
Borrowings	8,214	3,093	3,093	3,093	3,093	
Deferred tax (net)	1,370	1,644	1,644	1,644	1,644	
Sources of funds	127,935	143,412	159,176	176,729	204,344	
Gross block	104,067	117,377	135,377	164,377	185,377	
Depreciation	53,820	62,083	73,377	87,166	102,905	
Net block	50,247	55,294	62,000	77,211	82,472	
Capital work in progress	3,876	14,286	23,286	24,286	33,286	
Investments	71,766	51,067	46,067	46,067	46,067	
Inventories	12,088	14,150	17,818	21,041	20,750	
Sundry debtors	8,099	8,933	10,670	10,697	12,421	
Cash and equivalents	982	25,085	27,058	20,453	39,794	
Loans and advances	16,555	15,395	16,195	16,995	17,795	
Total current assets	37,724	63,563	71,742	69,186	90,760	
Sundry creditors and others	23,181	29,495	31,936	27,334	34,056	
Others current liabilities	6,213	6,045	6,045	6,045	6,045	
Provisions	6,284	5,258	5,938	6,642	8,140	
Total current liabilities & provisions	35,678	40,798	43,919	40,021	48,241	
Net current assets	2,046	22,765	27,823	29,165	42,519	
Uses of funds	127,935	143,412	159,176	176,729	204,344	
Book value per share (INR)	409.6	480.0	534.6	595.3	690.9	

Free cash flow						(INR mn)
Year to March	FY10	FY11	FY12	FY13E	FY14E	
Net profit	24,975	22,886	17,122	20,257	30,320	
Depreciation	8,250	10,135	11,294	13,789	15,739	
Others	3,246	(1,249)	1,170	28	1,498	
Gross cash flow	36,472	31,772	29,586	34,074	47,556	
Less: Changes in WC	3,784	(4,410)	3,765	8,651	(4,488)	
Operating cash flow	32,688	36,182	25,821	25,423	52,045	
Less: Capex	12,124	23,720	27,000	30,000	30,000	
Free cash flow	20,564	12,462	(1,179)	(4,577)	22,045	

Cash flow metrics					
Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating cash flow	32,688	36,182	25,821	25,423	52,045
Investing cash flow	(53,085)	(4,893)	(22,000)	(30,000)	(30,000)
Financing cash flow	1,990	(7,186)	(1,848)	(2,028)	(2,704)
Net cash flow	(18,408)	24,103	1,973	(6,605)	19,340
Capex	(12,124)	(23,720)	(27,000)	(30,000)	(30,000)
Dividends paid	(1,183)	(2,021)	(2,518)	(2,028)	(2,704)

Automobiles

Profitability & efficiency ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	23.7	17.4	12.1	12.4	16.3
ROACE (%)	49.7	35.0	14.8	15.9	24.5
Inventory day	15	15	18	18	17
Debtors days	11	8	10	9	8
Payable days	36	29	35	27	25
Cash conversion cycle (days)	(9)	(6)	(7)	(1)	-
Current ratio	1.1	1.6	1.6	1.7	1.9
Debt/EBITDA	0.2	0.1	0.1	0.1	0.1
Fixed asset turnover (x)	6.5	7.0	6.1	6.4	6.5
Debt/Equity	0.1	-	-	-	-
Adjusted debt/equity	0.1	-	-	-	-

Operating ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	2.6	2.7	2.4	2.7	2.7
Fixed asset turnover	6.5	7.0	6.1	6.4	6.5
Equity turnover	2.8	2.9	2.5	2.7	2.8

Valuation parameters

Year to March	FY10	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	86.9	77.3	61.6	70.1	104.9
Y-o-Y growth (%)	79.0	(11.0)	(20.3)	13.9	49.7
CEPS (INR)	115.5	112.4	100.7	117.8	159.4
Diluted PE (x)	16.0	18.0	22.6	19.8	13.3
Price/BV (x)	3.4	2.9	2.6	2.3	2.0
EV/Sales (x)	1.1	0.9	0.9	0.8	0.6
EV/EBITDA (x)	8.5	9.1	12.5	10.2	6.2

Peer comparison valuation

Company	Bloomberg Ticker	Price INR	Market-cap (INRbn)	PE (x)		EV/EBITDA (x)		RoE (%)	
				FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Maruti Suzuki	MSIL IN	1,395	403	19.9	13.3	10.2	6.3	12.4	16.3
Hero Motocorp	HMCL IN	1,800	359,460	15.5	14.4	8.8	7.6	47.6	41.1
Bajaj Auto	BJAUT IN	1,771	512	17.0	12.7	11.3	7.9	45.0	47.4
M&M	MM IN	890	546	17.1	13.4	9.7	7.2	24.0	25.3
Tata Motors	TTMT IN	261	745	6.7	5.8	4.2	3.6	33.9	30.1

Source: Bloomberg, Edelweiss research

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Ashok Leyland	BUY	SP	H	Bajaj Auto	HOLD	SO	H
Eicher Motors	BUY	SO	M	Exide Industries	HOLD	SP	L
Hero MotoCorp	REDUCE	SU	M	Mahindra & Mahindra Ltd	BUY	SO	M
Maruti Suzuki India Ltd	BUY	SO	H	Tata Motors Ltd	BUY	SP	H

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: research@edelcap.com

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelcap.com	+91 22 4063 5476
Nirav Sheth	Head Sales	nirav.sheth@edelcap.com	+91 22 4040 7499

Coverage group(s) of stocks by primary analyst(s): Automobiles

Ashok Leyland, Bajaj Auto, Eicher Motors, Exide Industries, Hero MotoCorp, Mahindra & Mahindra Ltd, Maruti Suzuki India Ltd, Tata Motors Ltd

Recent Research

Date	Company	Title	Price (INR)	Recos
26-Oct-12	Diamler AG	Dipping profit triggers margin guidance cut; <i>Global Pulse</i>		Not Rated
25-Oct-12	Mahindra & Mahindra	Riding on auto segment; <i>Result Update</i>	858	Buy
23-Oct-12	Hero Motocorp	Weak quarter; deteriorating outlook; <i>Result Update</i>	1,796	Reduce

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	113	53	19	186
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	14	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

DISCLAIMER

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