

RESULTS

REVIEW

Maruti Suzuki India Ltd.

MTM reversals boost profits...

REDUCE

Analyst

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Nifty: 5,598; Sensex: 18,431

CMP	Rs1,395
Target Price	Rs1,246
Potential Upside/Downside	(11)%

Key Stock Data

Sector	Automobiles
Bloomberg / Reuters	MSIL IN / MRTI.BO
Shares o/s (mn)	289
Market cap. (Rs mn)	402,900
Market cap. (US\$ mn)	7,453
3-m daily average vol.	64,210

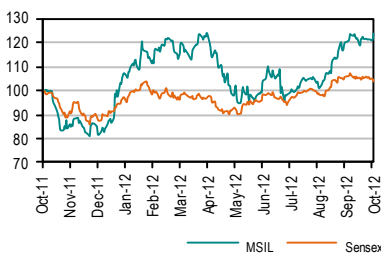
Price Performance

52-week high/low	Rs1,428/906
	-1m -3m -12m
Absolute (%)	3 24 24
Rel to Sensex (%)	5 17 20

Shareholding Pattern (%)

Promoters	54.2
FII/IRIs/OCBs/GDR	20.5
MFs/Banks/FIs	16.2
Non Promoter Corporate	6.2
Public & Others	2.9

Relative to Sensex



Source: Capitaline

Maruti Suzuki's Q2FY13 topline was in line at Rs83.1 bn (IDBl Rs83.3 bn). Operating performance was marginally ahead with EBITDA margin at 6.1% (IDBl 6%), led by lower than expected other expenditure – MTM reversal of Rs380 mn on royalty. PAT at Rs2.3 bn (IDBl Rs2 bn) was ahead led by operational beat and higher than expected other income at Rs1.6 bn (IDBl Rs1.2 bn), led by MTM gain on commodities of Rs430 mn.

Management stated that festive season has started off well with demand pattern largely maintained – diesel segment driving sales volumes, while petrol continues to lag behind. Manesar plant is close to peak capacity of 1,800 units/day (currently doing 1,600 units). However, it remains concerned on subdued petrol demand and forex exposure especially on indirect imports, which is largely open. We raise our FY13/14 earnings by 5%/1% at Rs69/Rs89 as we cut our tax rate assumption to 20%/23% vs. 23.8% each earlier. We reiterate our negative stance on the company, given the medium term uncertainty on demand environment in petrol segment, forex fluctuation, margin pressures (upward trending discounts on petrol segment) and rich valuation (20.2x/15.7x FY13E/14E EPS). Maintain REDUCE with price target of Rs1,246.

Result highlights

Net sales grew 6%/fell 23% YoY/QoQ to Rs83.1 bn, led by 9%/22% dip in volumes and 16% jump/1% dip in realization. Blended realisation stood at Rs361k per vehicle, with domestic realization at Rs356k vs. Rs364k QoQ (weaker mix away from *Swift*, *D'zire* due to Manesar lockout) and exports realization at Rs403k vs. Rs368k QoQ (*Ertiga* CKD and *D'zire* exports). Average discounts stood at Rs14.8k vs. Rs11.5k in Q1 on higher share of petrol segment compact cars.

EBITDA margin was ahead marginally at 6.1%, down 20bps/120bps, with EBITDA at Rs5.1 bn (IDBl Rs5 bn; deviation led by lower other expenditure – MTM reversal of Rs380 mn on royalty), up 3%/down 35%. Margin weakness continued led by higher RMC/sales at 79.6% vs. 78.6%/77.8% YoY/QoQ on higher blended discounts, unfavourable forex impact from indirect imports and weaker mix.

PAT at Rs2.3 bn was ahead of estimates of Rs2 bn, led by operational beat and higher than expected other income at Rs1.6 bn (IDBl Rs1.2 bn) – by MTM gain on commodities of Rs430 mn.

Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY11	3,69,199	35,580	9.6	22,886	79.2	17.6	9.3	17.8	18.6
FY12	3,56,962	26,221	7.3	16,352	56.6	24.6	12.8	11.3	9.8
FY13E	4,05,140	31,683	7.8	19,943	69.0	20.2	10.3	12.4	10.7
FY14E	4,89,951	42,210	8.6	25,726	89.0	15.7	7.5	14.3	13.9

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs mn)

Year-end: March	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)	H1FY13	H1FY12	YoY (%)
Net Sales	83,054	78,316	6.0	107,782	(22.9)	190,836	163,609	16.6
Stock Adjustment	2,520	955	163.9	(1,333)	(289.1)	1,187	(572)	(307.4)
Raw material	63,590	60,611	4.9	85,235	(25.4)	148,825	129,055	15.3
Raw mat cons	66,110	61,566	7.4	83,903	(21.2)	150,012	128,483	16.8
% net sales	79.6	78.6	(1.0)	77.8	(1.8)	78.6	78.5	(0.1)
Employee Expenses	2,352	1,995	17.9	2,383	(1.3)	4,735	3,788	25.0
% net sales	2.8	2.5	(0.3)	2.2	(0.6)	2.5	2.3	(0.2)
Other Expenses	9,507	9,814	(3.1)	13,633	(30.3)	23,140	18,252	26.8
% net sales	11.4	12.5	1.1	12.6	1.2	12.1	11.2	(1.0)
Total Expenditure	77,969	73,374	6.3	99,919	(22.0)	177,887	150,523	18.2
EBITDA	5,085	4,942	2.9	7,863	(35.3)	12,948	13,086	(1.1)
Margin %	6.1	6.3	(0.2)	7.3	(1.2)	6.8	8.0	(1.2)
Other Income	1,563	1,177	32.8	1,123	39.2	2,686	2,978	(9.8)
Interest	380	109	248.1	332	14.7	712	167	326.9
Depreciation	3,470	2,664	30.3	3,399	2.1	6,870	5,088	35.0
PBT	2,798	3,346	(16.4)	5,255	(46.8)	8,054	10,809	(25.5)
Total tax	524	942	(44.4)	1,018	(48.5)	1,541	2,912	(47.1)
% PBT	18.7	28.1	(9.4)	19.4	(0.6)	19.1	26.9	(7.8)
PAT	2,274	2,404	(5.4)	4,238	(46.3)	6,512	7,897	(17.5)
Extraordinary Items	-	-	-	-	-	-	-	-
Reported PAT	2,274	2,404	(5.4)	4,238	(46.3)	6,512	7,897	(17.5)
NPM (%)	2.7	3.1	(0.3)	3.9	(1.2)	3.4	4.8	(1.4)
EPS (Rs)	7.9	8.3	(5.4)	14.7	(46.3)	22.5	27.3	(17.5)
Equity	1,445	1,445		1,445		1,445	1,445	

Source: Company; IDBI Capital Research

Key concall highlights

- **Festive season has been good; medium term demand concerns remain:** The company continues to witness subdued consumer sentiment in petrol cars led by rising cost of credit, concerns on finance availability and higher fuel costs. Nonetheless, diesel demand remains healthy with waiting periods across models - >100k units order book. Although festive season has been good so far, concerns remain over medium term demand outlook in petrol segment.
- Inventory in petrol segment stood at 2-3 weeks (down from 4-6 weeks earlier).
- The company has taken price hike of <1% in Oct'12.
- **1/3rd of JPY/USD hedged; open for USD/INR** – MSIL is hedged for 1/3rd of direct JPY/USD exposure for balance 6 months of FY13, while it is largely open for USD/INR leg (partial natural hedge). On indirect imports, its largely open on both the legs.
- **Diesel engine supply at 400k in FY13; to go up to ~550k by H2FY14** – Diesel engine supply stood at ~250k by FY12 end and will go up to ~400k during FY13 (300k from SPIL + 100k from Fiat). Further, the diesel engine plant with capacity of 150k will come up by H2FY14, which will be ramped to 300k during FY15.
- **Capex** – MSIL spent Rs13 bn capex in H1FY13 and plans to spend Rs50 bn in FY13 (including part of capex on diesel engine plant and ~Rs5 bn to be spent on Rohtak R&D centre). On the engine plant, it will be spending Rs17 bn for 300k capacity.
- The company has received >30k bookings on new *Alto*.
- Lump sum royalty payment for new *Alto* will come in Q3FY13 in other expenditure.

- Rural sales stood at 27% of sales in Q2.
- The company expects flat exports in FY13 and plans to take exports share to 15% over medium term led by new markets and new products.
- Tax rate is likely to remain at ~20% in FY13 (19.1% in H1FY13).
- MSIL sold 70k diesel cars in Q2FY13. At industry level, share of diesel is at 58%.

Petrol demand concerns persist, rich valuation; Reiterate REDUCE

Management stated that festive season has started off well with demand pattern largely maintained – diesel segment driving sales volumes, while petrol continues to lag behind. Manesar plant is close to peak capacity of 1,800 units/day (currently doing 1,600 units). However, it remains concerned on subdued petrol demand and forex exposure especially on indirect imports, which is largely open.

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Table: Vehicle sales

Year-end: March	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)	H1FY13	H1FY12	YoY (%)
Volumes	230,376	252,307	(8.7)	295,896	(22.1)	526,272	533,833	(1.4)
Domestic	209,954	222,406	(5.6)	263,264	(20.2)	473,218	473,089	0.0
Exports	20,422	29,901	(31.7)	32,632	(37.4)	53,054	60,744	(12.7)
Mini - M800, Alto, Wagon R, A-star	90,210	112,848	(20.1)	94,813	(4.9)	185,023	234,900	(21.2)
Compact - Swift, Estilo, Ritz	39,631	44,864	(11.7)	72,986	(45.7)	112,617	100,515	12.0
Super compact – Dzire	26,192	20,288	29.1	46,958	(44.2)	73,150	45,383	61.2
Mid size - SX4	1,414	4,392	(67.8)	1,447	(2.3)	2,861	9,909	(71.1)
Executive – Kizashi	14	54		21	(33.3)	35	171	
Total Domestic Cars	157,461	182,446	(13.7)	216,225	(27.2)	373,686	390,878	(4.4)
Utility vehicles - Gypsy, Vitara	21,401	2,344	813.0	18,965	12.8	40,366	3,846	949.6
Vans - Omni, Eeco	31,092	37,616	(17.3)	28,074	10.8	59,166	78,365	(24.5)
Total Domestic MUV's	52,493	39,960	31.4	47,039	11.6	99,532	82,211	21.1

Source: Company; SIAM

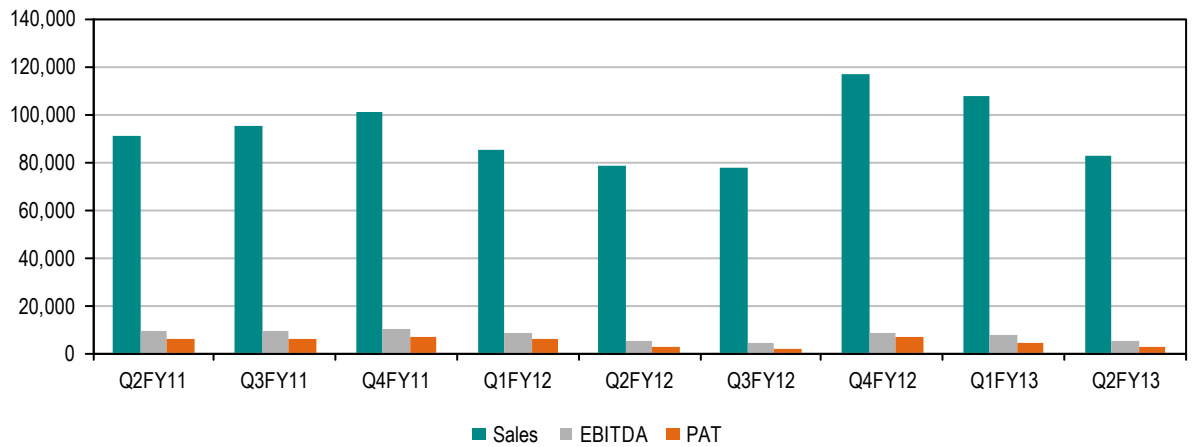
Table: Per vehicle

Year-end: March	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)	H1FY13	H1FY12	YoY (%)
Realisation - blended	360,516	310,400	16.1	364,255	(1.0)	362,618	306,480	18.3
Domestic realisation	356,337	312,160	14.2	363,823	(2.1)	360,502	308,714	16.8
Exports realisation	403,486	297,314	35.7	367,737	9.7	381,498	289,082	32.0
Material cost	286,963	244,010	17.6	283,555	1.2	285,047	240,680	18.4
Employee cost	10,210	7,905	29.2	8,052	26.8	8,997	7,096	26.8
Other expenses	41,268	38,898	6.1	46,075	(10.4)	43,970	34,191	28.6
EBITDA	22,075	19,587	12.7	26,573	(16.9)	24,604	24,513	0.4

Source: Company; IDBI Capital Research

Figure: Quarterly trend in financials

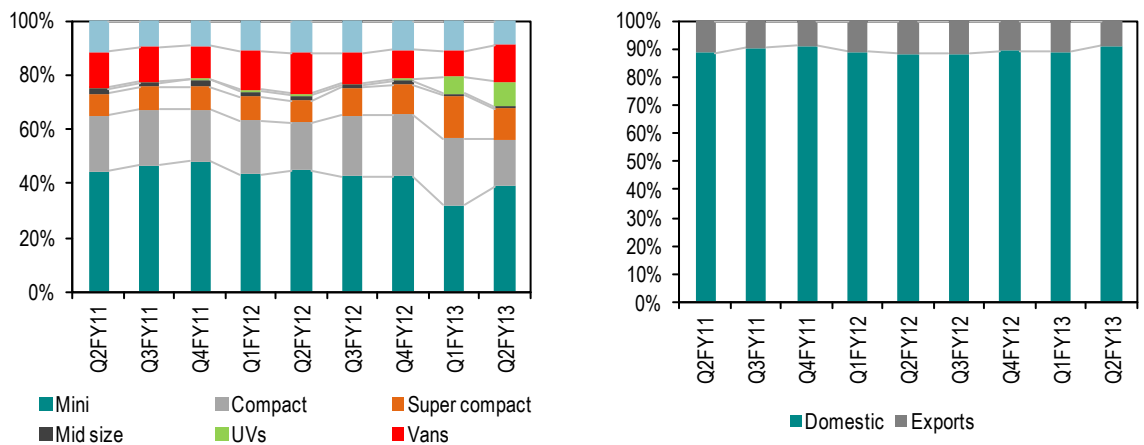
(Rs mn)



Source: Company; IDBI Capital Research

Figure: Volume and geography mix

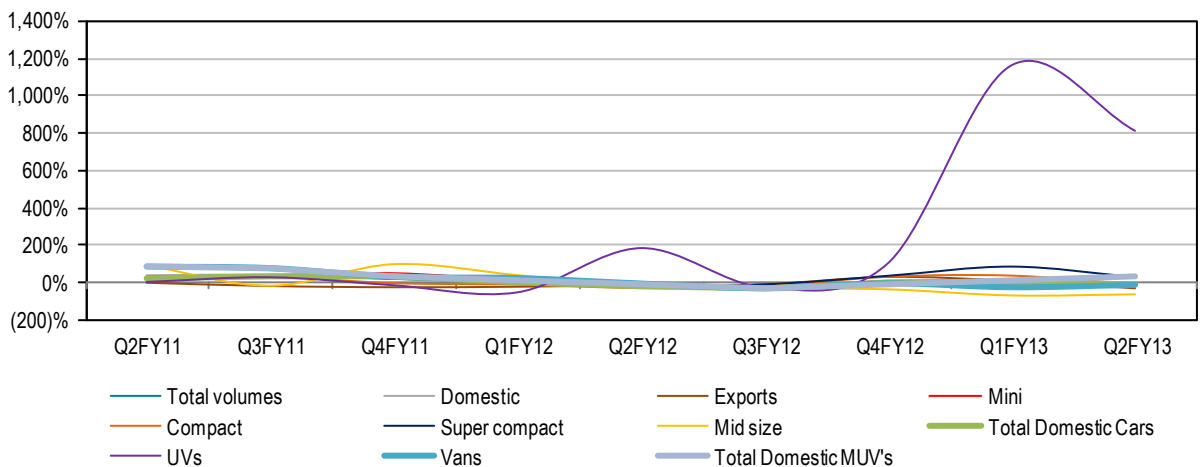
(%)



Source: Company; SIAM; IDBI Capital Research

Figure: Segment wise growth

(%)



Source: Company; SIAM; IDBI Capital Research

Financial summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Net sales	3,69,199	3,56,962	4,05,140	4,89,951
Growth (%)	24.6	(3.3)	13.5	20.9
Operating expenses	(3,33,619)	(3,30,741)	(3,73,457)	(4,47,741)
EBITDA	35,580	26,221	31,683	42,210
Growth (%)	(10.6)	(26.3)	20.8	33.2
Depreciation	(10,135)	(11,384)	(13,806)	(16,490)
EBIT	25,445	14,837	17,877	25,720
Interest paid	(244)	(552)	(509)	(509)
Other income	5,887	7,177	7,561	8,199
Pre-tax profit	31,088	21,462	24,928	33,410
Tax	(8,202)	(5,110)	(4,986)	(7,684)
Effective tax rate (%)	26.4	23.8	20.0	23.0
Net profit	22,886	16,352	19,943	25,726
Adjusted net profit	22,886	16,352	19,943	25,726
Growth (%)	(8.4)	(28.6)	22.0	29.0
Shares o/s (mn nos)	289	289	289	289

Balance Sheet

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Net fixed assets	69,580	81,321	107,515	126,025
Investments	125	16,978	16,978	16,978
Other non-curr assets	868	825	868	868
Current assets	114,505	124,723	121,796	140,170
Inventories	14,150	17,965	20,285	24,320
Sundry Debtors	8,933	9,376	10,821	13,189
Cash and Bank	25,085	24,361	29,646	36,618
Loans and advances	15,395	11,547	11,547	11,547
Total assets	185,078	223,847	247,156	284,040
Shareholders' funds	138,675	151,874	169,158	191,560
Share capital	1,445	1,445	1,445	1,445
Reserves & surplus	137,230	150,429	167,713	190,115
Total Debt	3,093	2,649	2,649	2,649
Secured loans	312	966	966	966
Unsecured loans	2,781	1,683	1,683	1,683
Other liabilities	5,605	6,497	5,161	5,161
Curr Liab & prov	43,430	66,930	74,292	88,773
Current liabilities	40,798	65,476	72,838	87,319
Provisions	2,632	1,454	1,454	1,454
Total liabilities	46,403	71,973	77,999	92,480
Total equity & liabilities	185,078	223,847	247,156	284,040
Book Value (Rs)	480	526	585	663

Cash Flow Statement

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Pre-tax profit	31,088	21,462	24,928	33,410
Depreciation	8,263	10,057	13,806	16,490
Tax paid	(9,779)	(2,509)	(6,365)	(7,684)
Chg in working capital	4,738	23,046	3,455	7,415
Other operating activities	(44)	(17,613)	16,978	(0)
Cash flow from operations (a)	34,266	34,443	52,803	49,631
Capital expenditure	(23,720)	(21,798)	(40,000)	(35,000)
Chg in investments	(5)	(16,853)	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(3,021)	(49,183)	(28,022)	(40,000)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(5,121)	(444)	-	-
Dividend (incl. tax)	(2,021)	(2,518)	(2,518)	(2,659)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(7,142)	(2,962)	(2,518)	(2,659)
Net chg in cash (a+b+c)	24,103	(17,702)	22,263	6,972

Financial Ratios

Year-end: March	FY11	FY12	FY13E	FY14E
Adj EPS (Rs)	79.2	56.6	69.0	89.0
Adj EPS growth (%)	(8.4)	(28.6)	22.0	29.0
EBITDA margin (%)	9.6	7.3	7.8	8.6
Pre-tax margin (%)	8.4	6.0	6.2	6.8
ROE (%)	17.8	11.3	12.4	14.3
ROCE (%)	18.6	9.8	10.7	13.9
Turnover & Leverage ratios (x)				
Asset turnover (x)	2.1	1.8	1.8	1.8
Leverage factor (x)	1.4	1.3	1.4	1.5
Net margin (%)	6.2	4.6	4.9	5.3
Net Debt/Equity (x)	(0.5)	(0.4)	(0.5)	(0.5)
Working Capital & Liquidity ratios				
Inventory days	14	18	18	18
Receivable days	9	10	10	10
Payable days	36	41	41	41

Valuation

Year-end: March	FY11	FY12	FY13E	FY14E
PER (x)	17.6	24.6	20.2	15.7
Price / Book value (x)	2.9	2.7	2.4	2.1
PCE (x)	12.2	14.5	11.9	9.5
EV / Net sales (x)	0.9	0.9	0.8	0.6
EV / EBITDA (x)	9.3	12.8	10.3	7.5
Dividend Yield (%)	0.5	0.5	0.6	0.7



Notes

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Key to Ratings**Stocks:**

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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