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Maruti Suzuki

1QFY2010 Result Update

NEUTRAL

Price	**Rs1,296**
Target Price	**-**
Investment Period	**-**

Stock Info

Sector	Automobile
Market Cap (Rs cr)	37,431
Beta	0.6
52 WK High / Low	1306/428
Avg Daily Volume	235345
Face Value (Rs)	5
BSE Sensex	15,231
Nifty	4,524
BSE Code	532500
NSE Code	MARUTI
Reuters Code	MRTI.BO
Bloomberg Code	MSIL@IN

Shareholding Pattern (%)

Promoters	54.2
MF/Banks/Indian FIs	23.0
FII/ NRIs/ OCBs	20.8
Indian Public	2.0

Abs.	**3m**	**1yr**	**3yr**
Sensex (%)	36.8	1.9	49.1
Maruti (%)	62.0	113.4	79.1

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Performance Highlights

- **Sales and Net Profit better than expectation:** For 1QFY2010, Maruti recorded a 33.9% jump in Net Sales to Rs6,365cr (including Service Income), which was above our expectation of Rs5,960cr. The Sales performance came on the back of 17.7% yoy increase in volumes while average realisation per vehicle moved up 13.5% yoy, which was primarily due to the change in Sales mix and better performance by high realisation Segments like A3 and MUVs. Bottom-line grew 25.3% yoy to Rs584cr largely due to the favourable foreign exchange movement during the quarter.

- **Margins improve on cost cutting measures:** During 1QFY2010, Maruti witnessed a 50bp yoy improvement in EBITDA Margins owing to improved operating leverage and partially due to cost cutting measures adopted by the company. Raw Material cost, however increased by 15bp yoy and accounted for over 78.2% (78% in 1QFY2009) of Net Sales largely due to product mix variance and impact of Forex on vendor import. Nonetheless, Raw Material costs declined substantially by around 239bp qoq following the decline in commodity prices. Other Expenditure fell by 69bp yoy and 64bp qoq mainly on account lower selling and distribution expenditure and fuel costs. Further, higher Top-line growth helped Staff costs to decrease by 24bp yoy (as a % to Sales). Overall, Maruti reported a 39.1% yoy increase in Operating Profits to Rs793cr (Rs570cr).

- **Net Profit higher than estimated, up 25.3%:** Net Profit for the quarter rose by 25.3% yoy to Rs583.5cr (Rs465.9cr). Depreciation increased by 18.1% yoy to Rs196cr on ongoing capex of around Rs330cr, during the quarter. Higher Other Income of Rs345cr also supported Bottom-line growth to a certain extent, though the tax provision was higher at 27.7% (as against 23.6% in 1QFY2009).

Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	**17,936**	**20,455**	**24,240**	**27,900**
% chg	*22.0*	*14.0*	*18.5*	*15.1*
Net Profit	**1,730.8**	**1,218.7**	**1,791.6**	**2,140.2**
% chg	*10.8*	*(29.6)*	*47.0*	*19.5*
OPM (%)	12.8	7.0	11.2	11.5
EPS (Rs)	**59.9**	**42.2**	**62.0**	**74.1**
P/E (x)	21.6	30.7	20.9	17.5
P/BV (x)	4.4	3.9	3.4	2.9
RoE (%)	20.6	12.7	16.1	16.4
RoCE (%)	18.1	6.8	14.8	15.6
EV/Sales (x)	1.3	1.2	1.0	0.9
EV/EBITDA (x)	12.0	19.2	10.1	8.5

Source: Company, Angel Research

Conference call - Key highlights

Maruti Suzuki posted total sales of 226,729 units, representing 17.7% growth during 1QFY2010. This included Exports of a record 29,314 units, representing a yoy growth of 134.7%. During the quarter, the company registered strong volume growth both in the domestic as well as export markets. Positive response to its new models and continued focus on tapping new market segments enabled the company to achieve near double-digit volume growth and enhanced marketshare.

Since its first shipment in January 2009, *A-star* has led the company's exports. *A-star's* cumulative exports crossed the 45,000 units mark in June 2009. *A-star* has also received overwhelming customer response in the European markets such as Germany, United Kingdom, Netherlands, France and Belgium. In Exports, positive response to *A-star*, combined with scrappage incentives offered by governments in Europe, led to the sharp growth.

Exhibit 1: 1QFY2010 Product Performance

Segment / Model	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
A1 : *Maruti 800*	7,119	16,649	*(57.2)*	49,383	69,553	*(29.0)*
C: Omni, Versa	22,233	20,761	*7.1*	77,948	89,729	*(13.1)*
A2: *Alto, Wagon R, Zen, Swift, A-Star*	146,733	125,427	*17.0*	511,396	499,280	*2.4*
A3 : *SX4, Esteem, D-zire*	19,947	15,940	*25.1*	75,928	49,335	*53.9*
Total Passenger cars	**196,032**	**178,777**	***9.7***	**714,655**	**707,897**	***1.0***
MUV: *Gypsy, Vitara*	1,383	1,316	*5.1*	7,489	3,921	*91.0*
Domestic	197,415	180,093	*9.6*	722,144	711,818	*1.5*
Exports	29,314	12,491	*134.7*	70,023	53,024	*32.1*
Total Sales	**226,729**	**192,584**	***17.7***	**792,167**	**764,842**	***3.6***

Source: Company, Angel Research

Capex plan and Focus on R&D: The company is continuing its focus on long-term initiatives and has not changed its long-term capex plan of Rs9,000cr over FY2008-12E. As per its initial plan, the company incurred capex of around Rs1,600cr during FY2009 and intends to invest another Rs2100cr during FY2010. These largely include, focus on R&D and investment in new and innovative products apart from selling and marketing expenditure in an intensifying competitive scenario.

Regards this, the company plans to have 1,000 engineers in R&D by 2010 as against around 730 at present. The new facility for the K-series engines is also on schedule. Further, annual capacity to manufacture was expanded from 800,000 to one million units (Gurgaon plus Manesar plants) and commenced export port facilities for cars at Mundra, which was used for *A-star* shipments.

Reached out to new segments of customers – government employees and rural customers through innovative programmes: The company has already delivered robust performance in these new segments of customers, where the Rural segment contributed around 12% (9% in FY2009).

Higher Diesel cars sales volume: The company reported higher growth in diesel car sales with the launch of *Ritz*. During the quarter, the company reported 66% yoy and 10% qoq growth in the mentioned segment. At present, the sales ratio of diesel: petrol in *Ritz* and *Swift* is around 60:40 and 50:50, respectively.

Overall Industry scenario improving: The company indicated that financing has improved to 66% as against around 60% in the last few months. At the same time, average discount per car has declined to Rs9,500 from around Rs12,500 two quarters back.

Outlook and Valuation

The recent macro-economic turmoil cast a shadow on the Car industry growth in FY2009. As such, the Car industry witnessed slowdown in 9MFY2009. However, the Segment registered good recovery in 4QFY2009 and 1QFY2010 aided by various stimulus packages announced by the government and declining Interest rates following positive measures announced by the RBI. Hence, we have conservatively estimated around 4-5% growth in Passenger Vehicle volumes for FY2010. The company has also given guidance of around 5% yoy growth in FY2010 and is closely observing the sequential sales every month.

As expected, the Industry's core business performance changed for the better in the last two quarters, wherein Auto companies reported a sequential spurt in Revenues on better Volumes. We believe this may be the beginning of a revival period for the Indian Auto companies. Most of the stocks have also shown positive bustle up in the last three months on better growth visibility for the Sector. However, most of the Auto stocks registered a sharp run up during in last six months and we advise to enter the stocks at lower levels.

We believe that Maruti's overall performance will improve from 1QFY2009. We expect it to register 11-12% yoy increase in overall volumes aided by around 6% yoy growth in Domestic volumes and more than 65% yoy growth in Export volumes. This is also supported by the fact that, lower commodity prices and improving operating leverage will help the company clock robust growth at the Bottom-line level. Thus, for FY2010E, we estimate the company's Top-line to grow at around 16.8% yoy to Rs24,240cr and Net Profit to grow by 47% to Rs1,792cr following improvement in Operating Margins (due to lower input costs).

We expect Maruti's valuation to be largely determined by its ability to maintain marketshare amidst intensifying competition. We upgrade our EPS estimates to Rs62 (Rs57.9 earlier) for FY2010E and Rs74.1 (Rs68.3 earlier) for FY2011E. However, after the recent sharp run up in the stock, at the CMP, the stock is trading at fair valuations of 20.9x FY2010E and 17.5x FY2011E Earnings. **Hence, we remain Neutral on the stock. However, on the favourable relative tradeoff, the stock can continue to gather momentum on any positive surprises on the volume or operating performance fronts in the near term.**

Exhibit 2: 1QFY2010 Performance

Y/E Mar (Rs cr)	1QFY2010	1QFY2009	*% chg*	FY2009	FY2008	*% chg*
Net Sales	**6,364.7**	**4,753.6**	***33.9***	**20,455.3**	**17,936.2**	***14.0***
Other Income	344.8	328.8	*4.9*	998.5	837.1	*19.3*
Total Income	**6,709.5**	**5,082.4**	***32.0***	**21,453.9**	**18,773.3**	***14.3***
EBITDA	793.2	570.3	*39.1*	1,832.1	2,733.4	*(33.0)*
OPM (%)	**12.5**	**12.0**		**9.0**	**15.2**	
Interest	6.3	16.8	*(62.5)*	51.0	59.6	*(14.5)*
Depreciation	196.1	166.1	*18.1*	706.5	568.2	*24.4*
Profit before Tax	807.3	609.5	*32.4*	1,675.9	2,503.1	*(33.0)*
Tax	223.8	143.7		457.1	772.2	
Profit after Tax	**583.5**	**465.9**	***25.3***	**1,218.7**	**1,730.8**	***(29.6)***
EPS (Rs)	**20.2**	**16.1**		**42.2**	**59.9**	

Source: Company, Angel Research

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Ratings (Returns) :	Buy (Upside > 15%)	Accumulate (Upside upto 15%)	Neutral (5 to -5%)
	Reduce (Downside upto 15%)	Sell (Downside > 15%)	