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Maruti Suzuki

4QFY2008 Result Update

BUY

Price	Rs746
Target Price	Rs900
Investment Period	12 months

Stock Info

Sector	Automobile
Market Cap (Rs cr)	21,559
Beta	0.65
52 WK High / Low	1252/700
Avg Daily Volume	179719
Face Value (Rs)	5
BSE Sensex	16,698
Nifty	5,023
BSE Code	532500
NSE Code	MARUTI
Reuters Code	MRTI.BO
Bloomberg Code	MSIL IN

Shareholding Pattern (%)

Promoters	54.2
MF/Banks/Indian FIs	27.0
FII/ NRIs/ OCBs	15.8
Indian Public	3.0

Abs.	3m	1yr	3yr
Sensex (%)	(5.1)	19.9	161.8
Maruti (%)	(7.7)	(0.8)	73.4

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Performance Highlights

- **Sales in-line, Net Profit drops due to change in Depreciation Policy:** For 4QFY2008, Maruti clocked 7.9% growth in Net Sales to Rs4,763cr, which was slightly above our expectation of Rs4,651cr. Sales came in largely on the back of volumes growing by 1.1% and average realisation per vehicle moving up 7.9% yoy primarily due to a change in Sales mix and better performance by higher realisation segments like A3 and MUV. However, the company's Bottom-line, which declined 33.6% yoy to Rs297.7cr, came in much below our expectation. We had estimated Net Profit of Rs435cr for the quarter. Bottom-line was impacted by the change in Depreciation Policy owing to which depreciation for the period ended higher by Rs212.3cr and saw a corresponding reduction in Profit.

- **Raw Material costs up a marginal 17bp; higher Other Expenditure subdue Margin:** During 4QFY2008, Maruti witnessed a 255bp yoy fall in EBITDA Margins owing to higher Other Expenditure, which spiked 33.9% yoy and accounted for over 12.1% of Sales (9.8% in 4QFY2007). Product mix variance and high commodity prices saw raw material costs increasing by a marginal 17bp. Maruti reported 14.8% yoy decline in Operating Profits. Other Expenditure increased mainly on account of a rise in Royalty by 31% yoy to Rs120.7cr in 4QFY2008 as Royalty payable on realisation per vehicle has increased by 7%. Models under Royalty also increased from 71% last year to 76% in 4QFY2008.

- **Net Profit includes many adjustments:** Depreciation increased sharply by 333.2% yoy to Rs311.1cr because of the change in Depreciation Policy. This resulted in depreciation being higher by Rs212.3cr along with a corresponding reduction in Profit during the quarter. Adjusting this, the company would have reported 13.7% jump in Net Profit mainly on account of higher Other Income of Rs286.1cr (Rs205cr), up 39.6% yoy. Further, excise benefit to the extent of Rs54.5cr was passed on to dealers before the effective change in new (reduced) excise structure. This resulted in direct cut from Net Sales and Net Profit for the quarter to that extent.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008E	FY2009E	FY2010E
Net Sales	**14,696**	**17,936**	**20,947**	**24,153.7**
% chg	*22.3*	*22.0*	*16.8*	*15.3*
Net Profit	**1,562**	**1,731**	**1,833**	**2,094**
% chg	*31.4*	*10.8*	*5.9*	*14.2*
OPM (%)	13.5	12.5	11.7	11.9
EPS (Rs)	**54.0**	**59.9**	**63.4**	**72.5**
P/E (x)	13.8	12.5	11.8	10.3
P/CEPS(x)	11.8	9.4	9.5	8.2
P/BV (x)	3.1	2.6	2.2	1.8
RoE (%)	22.8	20.6	18.3	17.7
RoCE (%)	22.5	18.2	18.4	18.3
EV/Sales (x)	1.2	1.0	0.8	0.7
EV/EBITDA (x)	10.2	9.0	8.3	7.0

Source: Company, Angel Research

FY2008 Result

For FY2008, Maruti clocked 22.8% growth in Net Sales to Rs17,915cr. This was mainly driven by around 13.3% yoy growth in volume and 8.3% yoy jump in net realisation which was mainly on account of a change in Sales mix and better performance by higher realisation segments like A3 and MUV. However, the company's Bottom-line, which grew 14.3% yoy to Rs1,785cr, came in below our expectation of Rs1,886cr. This was mainly due to the change in Depreciation Policy, which resulted in depreciation being higher by Rs212.3cr for the year, and a corresponding reduction in profit for the year. Also, excise benefit to the extent of Rs.54.5cr was passed on to the dealers before effective change in (reduced) the excise structure. Also, based on technical evaluation and market considerations, the company had, with effect from April 1, 2007, revised the estimated useful life of certain Plant and Machinery from 13 years to 8 -11 years, Dies and Jigs from 5 to 4 years and Electronic Data Processing Equipment from 6 to 3 years. Margins were under pressure mainly due to higher Other Expenditure. Maruti managed to post 11.6% yoy increase in Operating Profit to Rs2,222cr for FY2008.

The Board has recommended a final dividend of Rs5 per share (100%) (previous year 90%).

Management Conference Call - Key Highlights

Margin to come under pressure

- ***Raw Material Contract changing in FY2009:*** Maruti's raw material cost, which accounted for 76% of sales in FY2008 (75.7% in FY2007) moved up by 30bp mainly on account of higher invoice discount and commodity prices. The company managed to mitigate effects of higher raw material costs by partially passing it on to the customers and partially saving in Other Expenditure. However, going ahead as growth seems to be slowing down and raw material suppliers' contracts due for revision, we believe Maruti's Margins would come under pressure. Management is already negotiating with the steel companies the steel prices, which are expected to go up by 30-40% in the next contract. Maruti usually enters into six-month contracts with the suppliers.

- ***Other Expenditure increased significantly:*** Other Expenditure spiked 27.5% yoy and accounted for over 9.4% (9.1%) of Sales in FY2008. Other Expenditure increased mainly because of Royalty yoy increasing by 35% to Rs495.2cr in FY2008 as Royalty payable on realisation per vehicle has increased by 9%. Models under Royalty also increased from 68% last year to 75% in FY2008. Further, a 51% spurt in Power & Fuel cost to Rs147.3cr added to other expenditure. Product mix shift to the Manesar plant resulted in fuel cost increasing by 30% from August 2007 as the Manesar plant runs on diesel (for a plant running on diesel the fuel cost is higher compared to a plant running on gas). Management has indicated to gradually shift from diesel-based power consumption to gas at its Manesar plant.

- ***Provision of Rs50.5cr for Foreign Currency Derivative losses:*** Maruti has made provision for foreign currency derivatives as per ICAI guidelines to the extent of Rs50.5cr, which is categorised under Manufacturing Expenses. This includes Rs29cr forward cover for Euro against the Rupee for sales to Europe that is expected to start in 4QFY2009. The balance (Rs21.5cr) is forward cover for hedging Dollar dominated foreign currency loan taken for the Manesar plant. All these are mark-to-market losses and are reversal in nature. Covers are taken to reduce exposure from fluctuations in foreign currency rates.

Outlook and Valuation

We believe Maruti's performance would remain under pressure in 1HFY2009. We expect Maruti to deliver around 9% volume growth and 6% growth in Net Profit for FY2009. We expect Maruti's Margins to come under pressure due to higher raw material costs and other expenditure. The recent surge in general and food inflation has also cast a shadow over the car industry growth in FY2009 despite the cut in personal tax rates in the Budget. The Car industry has been witnessing a slowdown in 1HFY2008. Hence, we cut our FY2009 industry growth forecast to 10% from 15% while maintaining our FY2010 forecast at 13%. Nonetheless, we expect Maruti to grow slower than industry in FY2009 and have reduced our FY2009 domestic volume growth estimate to 6% from 10%. Ramp-up of *'A-Star'* and launch of *'Splash'* during 4QFY2009 will ensure 13% volume growth in FY2010 in line with industry. However, risks do exist in domestic sales, with several competitive launches expected in 2008 from Hyundai, Tata Motors, GM, FIAT, etc.

We expect Maruti's valuation to be largely determined by its ability to maintain marketshare amidst a hard Interest rate regime and intensifying competition. At the CMP of Rs746, the stock is available at 11.8x FY2009E and 10.3x FY2010E Earnings. We have revised our EPS estimates for FY2009 and FY2010 to Rs63.4 (Rs73.2 previously) and Rs72.5 (Rs81.2 previously), respectively. **We maintain Buy on the stock, with revised Target Price of Rs900 (Rs1,075).**

Exhibit 1: 4QFY2008 Product Performance

Segment / Model	4QFY2008	4QFY2007	% chg	FY2008	FY2007	% chg
A1 : Maruti 800	17,68	19,117	*(8.1)*	69,543	79,245	*(12.2)*
C: Omni, Versa	24,170	24,333	*(0.7)*	89,737	83,091	*8.0*
A2: Alto, Wagon R, Zen, Swift	1,31,885	1,34,717	*(2.1)*	4,99,280	4,40,375	*13.4*
A3 : SX4, Esteem	12,433	6,827	*82.1*	49,335	29,697	*66.1*
Total Passenger cars	**1,86,119**	**1,84,994**	***0.6***	**7,07,960**	**6,32,408**	***11.9***
MUV: Gypsy, Vitara	1,135	905	*25.4*	3,927	3,221	*21.9*
Domestic	1,87,191	1,85,899	*0.7*	7,11,824	6,35,629	*12.0*
Export	15,034	14,213	*5.8*	53,024	39,295	*34.9*
Total Sales	**2,02,225**	**2,00,112**	***1.1***	**7,64,848**	**6,74,924**	***13.3***

Exhibit 2: 4QFY2008 Performance

Y/E Mar (Rs cr)	4QFY2008	4QFY2007	% chg	FY2008	FY2007	% chg
Net Sales	**4,762.9**	**4,413.4**	***7.9***	**17,914.8**	**14,592.2**	***22.8***
Other Income	286.1	205.0	*39.6*	887.6	598.4	*48.3*
Total Income	5,049.0	4,618.4	*9.3*	18,802.4	15,190.7	*23.8*
EBITDA	455.6	534.7	*(14.8)*	2,221.9	1,990.4	*11.6*
OPM (%)	9.6	12.1		12.4	13.6	
Interest	16.1	15.6	*3.7*	59.6	37.6	*58.4*
Depreciation	311.1	71.8	*333.2*	568.2	271.4	*109.4*
Profit before Tax	435.4	668.6	*(34.9)*	2,557.6	2,279.8	*12.2*
Tax	137.7	220.1		772.2	717.9	
Profit after Tax	**297.7**	**448.6**	***(33.6)***	**1,785.3**	**1,562.0**	***14.3***
EPS (Rs)	**10.3**	**15.5**		**61.8**	**54.1**	

Source: Company, Angel Research

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Ratings (Returns) Buy (> 15%) Accumulate (5 to 15%) Neutral (5 to -5%) Reduce (> -5%) Sell (> -15%)