

MARUTI SUZUKI INDIA

HOLD
CMP Rs1,234
TP Rs1,368

Result Review

Disappointment Galore

Maruti Suzuki's (MSIL) Q3FY11 results were disappointing on all counts as profits declined 18% YoY to Rs5.7bn as against our estimate of Rs6.2bn. Lower realisations, increase in input cost and a wage hike translated in a 560bps contraction in margins to 9.5%. Going forward the increasing competitive intensity of the industry is expected to cap margin expansion.

Volumes continue to flow: The domestic passenger vehicle industry has had a dream run in FY11 with YTD growth of 32%. Market leader MSIL too has been a beneficiary with a volume growth of 27%, despite facing severe capacity constraints in H1FY11. During Q3FY11, MSIL's domestic volumes increased by 36.8% to 300k units. However, exports were weak, declining by 28.2% to 31k units. Overall volumes were higher by 28.2% to 331k units.

Realisations Slump: Realisations for the quarter were down 2% QoQ to Rs281k/units. Drop in realisations is attributable to an inferior domestic product mix and weaker Euro lowering export realisations.

Margins below expectation: The company faced a double whammy in terms of exchange rate. The yen appreciation inflated the import bill for raw materials while a weak Euro led to lower export realisations. Raw material cost as a percentage of sales was higher by 400bps YoY. Employee cost surged 48% QoQ to Rs2.3bn on account of a wage hike alongwith arrears for previous two quarters. Margins contracted 100bps sequentially to 9.5% and were significantly below our expectation of 10.6%.

Outlook: We have marginally raised our volume estimates for FY11 and FY12 to 1.25mn and 1.43mn units respectively. In a rising cost scenario the company's ability to take price hikes is capped by the competitive pressures. Hence, we have reduced our margin estimates for FY12 by 110bps leading to downward revision in earnings estimate by 8% to Rs91.2.

VALUATIONS AND RECOMMENDATION

The stock is currently trading at 13.5x its FY12 earnings estimate. The heightened level of competition and input cost pressures continue to haunt the stock and same is reflected in lowering our target multiple to 15x (earlier 16x). We remain cautious on the stock and reiterate our 'HOLD' recommendation with a revised target price of Rs1,368 discounting FY12E earnings 15x.

KEY FINANCIALS						Rs mn
	FY08	FY09	FY10	FY11E	FY12E	
Net Sales	178,603	203,583	289,585	354,265	424,470	
YoY Gr. (%)	22.4	14.0	42.2	22.3	19.8	
EBITDA	27,358	18,445	39,651	36,041	43,074	
EBITDA Marg. (%)	14.9	8.9	13.4	9.9	9.9	
Adjusted Net Profit	17,308	12,187	24,976	22,314	26,348	
YoY Gr. (%)	10.8	(29.6)	104.9	(10.7)	18.1	
KEY RATIOS						
Dil. EPS (Rs)	59.9	42.2	86.4	77.2	91.2	
ROCE (%)	29.5	17.4	31.3	22.8	23.6	
RoE (%)	22.7	13.7	23.6	17.4	17.6	
PER (x)	20.6	29.2	14.3	16.0	13.5	
EV/Net sales (x)	1.8	1.6	1.0	0.8	0.7	
EV/EBITDA (x)	11.5	17.1	7.5	8.1	6.6	

31 January 2011

Vineet Hetamasaria, CFA +91-22-6618 6388

vineet.hetamasaria@pinc.co.in

Nikhil Deshpande +91-22-6618 6339

nikhil.deshpande@pinc.co.in

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Jun-10	Sep-10	Dec-10
Net Sales	82,315	91,473	94,945
YoY Gr. (%)	26.8	27.0	26.5
EBIDTA	7,925	9,603	9,018
EBIDTA Mar %	9.6	10.5	9.5
Adj. Net Profit	4,654	5,982	5,652
YoY Gr. (%)	-20.3	5.0	-17.8

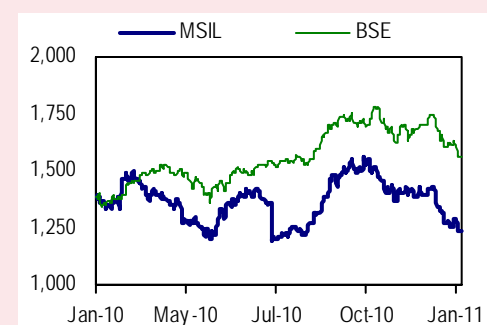
STOCK DATA

Market Cap	Rs356.5bn
Book Value per share	Rs409.6
Eq Shares O/S (F.V. Rs5)	289mn
Free Float	45.8%
Avg Traded Value (6 mnths)	Rs0.6bn
52 week High/Low	Rs1600/1170
Bloomberg Code	MSIL IN
Reuters Code	MRTI.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(13.2)	(18.2)	(11.3)
Relative	(2.9)	(8.6)	(23.7)

RELATIVE PERFORMANCE



Q3FY11 Performance and Concall Highlights

- In Q3FY11, MSIL was able to claw back marketshare lost during H1FY11. Marketshare was back to the 51.7% level, higher than ~48% marketshare recorded in the first half. The gain was primarily due to the success of the Alto K10 and new WagonR.
- Total domestic volumes were higher by 36.8% to 300k units buoyed by the robust demand during the festive season. However, the product mix was inferior as contribution of entry level B segment (Alto, WagonsR, Estilo, AStar) was higher compared to the B+ segment (Swift, Ritz) and C Segment (Dzire, SX4). Average discounts in Q3FY11 increased to Rs10.5k/unit from Rs8.5k in Q2FY11.
- Exports have been on a downward slide in FY11 after the end of scrappage schemes in Europe. In Q3FY11, exports declined by 20.3% to 31k units. Export realisations also suffered on account of the weaker Euro.
- Margins during the quarter declined 100bps sequentially. The impact has been on three counts i.e. lower realisations, increase in raw material cost and higher employee expenses.
- The appreciation of the Yen added to the increase in raw material prices. The company has limited scope for price increase due to the competitive landscape. Employee cost during the quarter increased 50% QoQ to Rs2.3bn. The increase was on account of a wage hike including a one time amount of Rs510mn as arrears pertaining to previous two quarters.
- In Q2FY11, the company had increased capacity at Manesar leading to an overall capacity of 110units/month. With current growth in the passenger vehicle market, MSIL has fast tracked its capacity expansion programme of 0.5mn units/annum. This capacity is expected to partially kick-off in early FY12 with the remaining by H2FY12. This will take the overall capacity to 1.7mn units/annum.
- On the hedging policy, the management stated that the company has decided to keep its Yen exposure open expecting no further appreciation of the Yen. The Euro exports are covered for the next six months.
- The management also stated that the demand scenario continues to remain strong with no slowdown in footfalls. The percentage of first time buyers for the company has dropped below the 50% mark to 45%.

Financial Table

(Rs mn)	Dec-10	Dec-09	YoY(%)	Sep-10	QoQ(%)	9MFY11	9MFY10	YoY(%)
Net Sales	92,767	73,338	26.5	89,371	3.8	262,645	207,236	26.7
Operating profit	6,841	9,648	(29.1)	7,502	(8.8)	20,459	23,684	(13.6)
Operating profit margins %	7.4	13.2	-580 bps	8.4	-100 bps	7.8	11.4	-360 bps
Other Operating Income	2,177	1,691	28.8	2,102	3.6	6,088	4,749	28.2
EBIDTA	9,018	11,339	(20.5)	9,603	(6.1)	26,546	28,432	(6.6)
EBIDTA margins %	9.5	15.1	-560 bps	10.5	-100 bps	9.9	13.4	-350 bps
Other Income	1,283	913	40.6	1,340	(4.3)	3,624	4,178	(13.2)
Interest	4	84	(95.7)	97	(96.3)	181	207	(12.5)
Depreciation	2,369	2,028	16.8	2,382	(0.5)	7,168	6,020	19.1
PBT	7,928	10,140	(21.8)	8,464	(6.3)	22,822	26,384	(13.5)
Tax	2,276	3,265	(30.3)	2,481	(8.3)	6,534	7,973	(18.0)
% PBT	28.7	32.2	-350 bps	29.3	-60 bps	28.6	30.2	-160 bps
PAT	5,652	6,875	(17.8)	5,982	(5.5)	16,288	18,411	(11.5)
NPM (%)	6.1	9.4	-330 bps	6.7	-60 bps	6.2	8.9	-270 bps
EPS	19.6	23.8	(17.8)	20.7	(5.5)	56.4	63.7	(11.5)

Vehicle sales

(Unit)	Dec-10	Dec-09	YoY(%)	Sep-10	QoQ(%)	9MFY11	9MFY10	YoY(%)
Total Sales	330,687	258,026	28.2	313,654	5.4	927,665	730,945	26.9
Domestic	299,527	218,910	36.8	277,936	7.8	820,350	625,410	31.2
Exports	31,160	39,116	(20.3)	35,718	(12.8)	107,315	105,535	1.7
Total Cars	285,348	232,536	22.7	270,738	5.4	802,426	658,198	21.9
Domestic	255,024	193,804	31.6	235,522	8.3	696,923	553,714	25.9
Exports	30,324	38,732	(21.7)	35,216	(13.9)	105,503	104,484	1.0
Total MUVs	45,339	25,490	77.9	42,916	5.6	125,239	72,747	72.2
Domestic	44,503	25,106	77.3	42,414	4.9	123,427	71,696	72.2
Exports	836	384	117.7	502	66.5	1,812	1,051	72.4

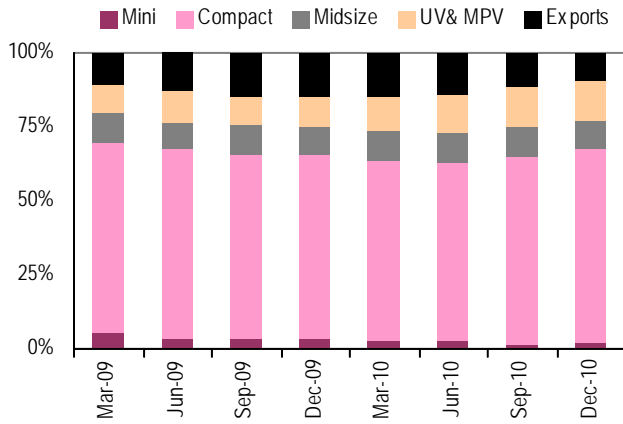
(%) of Sales

(%)	Dec-10	Dec-09	YoY (bps)	Sep-10	QoQ (bps)	9MFY11	9MFY10	YoY (bps)
Material cost	80.3	76.2	400	79.2	110	79.7	77.2	250
Staff cost	2.5	1.8	70	1.8	80	2.1	1.9	20
Other Expenses	9.9	8.8	100	10.7	(80)	10.4	9.5	100
Operating profit	7.4	13.2	(580)	8.4	(80)	7.8	11.4	(360)

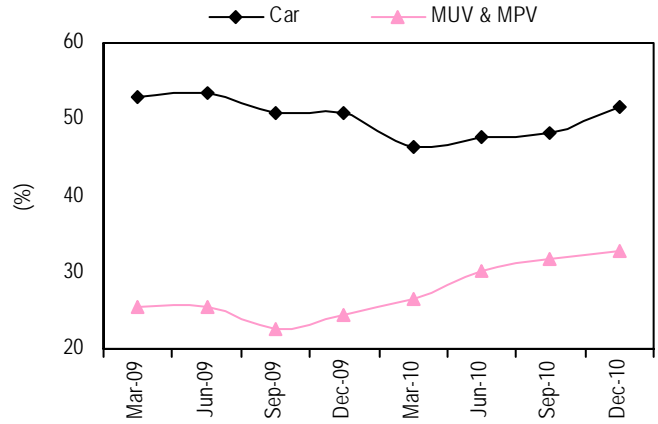
Per Vehicle

(Rs)	Dec-10	Dec-09	YoY(%)	Sep-10	QoQ(%)	9MFY11	9MFY10	YoY(%)
Realisations	280,529	284,226	(1.3)	284,935	(1.5)	283,125	283,518	(0.1)
Material cost	225,152	216,649	3.9	225,587	(0.2)	225,635	218,904	3.1
Employee cost	7,029	5,133	36.9	5,000	40.6	5,931	5,367	10.5
Other Expenses	27,661	25,051	10.4	30,432	(9.1)	29,505	26,845	9.9
Operating profit	20,686	37,393	(44.7)	23,916	(13.5)	22,054	32,401	(31.9)

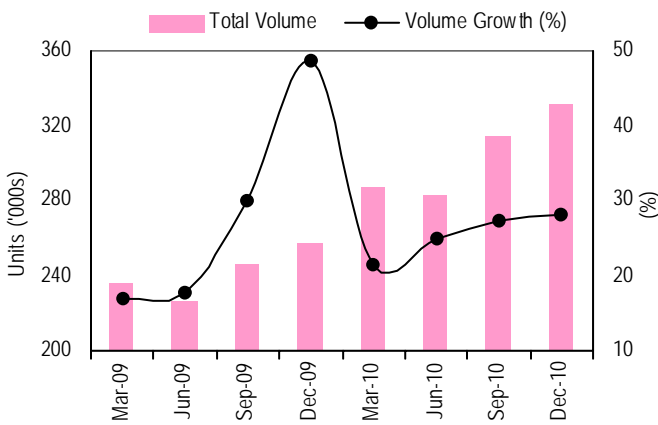
Product Mix



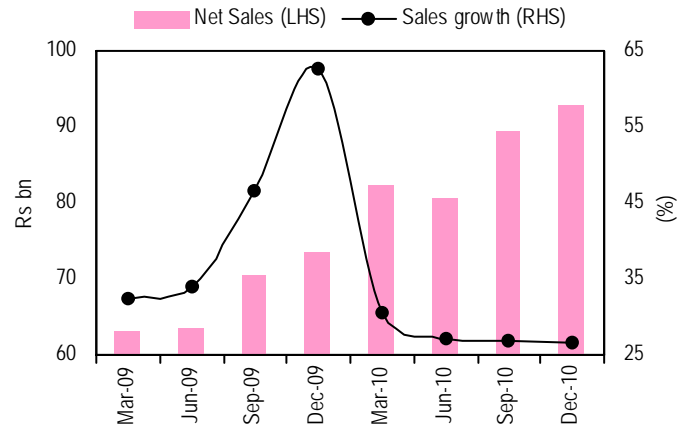
Domestic Marketshare



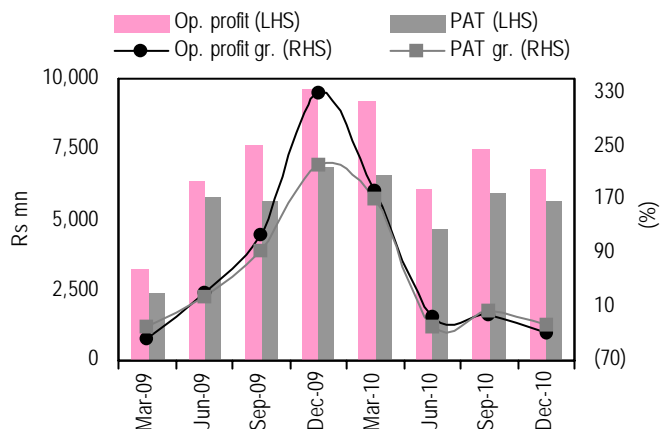
Total Sales Volume



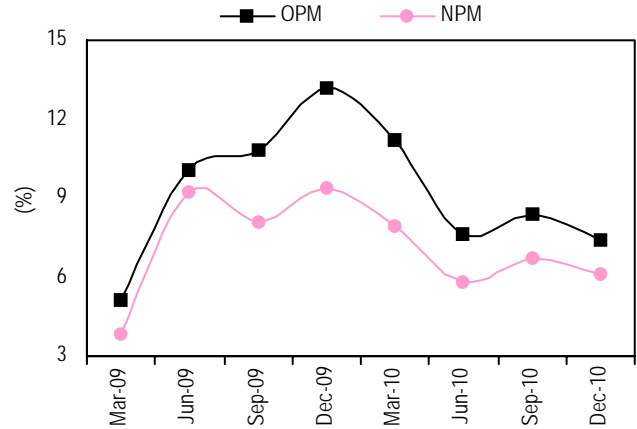
Net Sales



Net Profits



Profitability Trend



Year Ended March (Figures in Rs mn)

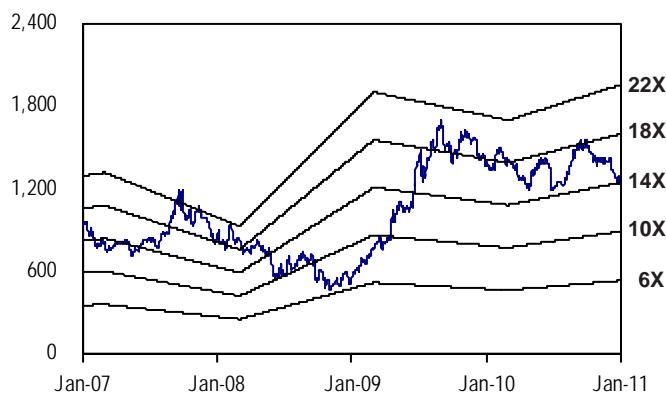
Income Statement	FY08	FY09	FY10	FY11E	FY12E
Net sales	178,603	203,583	289,585	354,265	424,470
Growth (%)	22.4	14.0	42.2	22.3	19.8
Operating profit	22,202	15,345	33,140	27,819	33,469
Other operating income	5,156	3,100	6,511	8,222	9,605
EBITDA	27,358	18,445	39,651	36,041	43,074
Growth (%)	19.6	(32.6)	115.0	(9.1)	19.5
Depreciation	(5,682)	(7,065)	(8,250)	(9,601)	(11,516)
Other income	3,950	5,888	4,859	4,968	5,752
EBIT	25,626	17,268	36,260	31,408	37,310
Interest paid	(596)	(510)	(335)	(200)	(200)
PBT (before E/o items)	25,030	16,758	35,925	31,208	37,110
Tax provision	(7,722)	(4,571)	(10,949)	(8,894)	(10,762)
E/o Income / (loss)	-	-	-	-	-
Net profit	17,308	12,187	24,976	22,314	26,348
Adjusted net profit	17,308	12,187	24,976	22,314	26,348
Growth (%)	10.8	(29.6)	104.9	(10.7)	18.1
Diluted EPS (Rs)	59.9	42.2	86.4	77.2	91.2
Diluted EPS Growth (%)	10.8	(29.6)	104.9	(10.7)	18.1

Cash Flow Statement	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	25,030	16,758	35,925	31,208	37,110
Depreciation	5,017	6,610	7,322	9,601	11,516
Total tax paid	(8,426)	(4,310)	(10,007)	(9,829)	(10,425)
Chg in working capital	357	(2,031)	(1,480)	1,208	286
Other operating activities	-	(1,709)	1,947	-	-
Cash flow from oper. (a)	21,978	15,318	33,707	32,188	38,487
Capital expenditure	(16,359)	(15,603)	(12,124)	(24,624)	(30,175)
Chg in investments	(1,716)	(675)	(10)	-	-
Other investing activities	-	-	-	-	-
Cash flow from inv. (b)	(18,075)	(16,278)	(12,134)	(24,624)	(30,175)
Free cash flow (a+b)	3,903	(960)	21,573	7,564	8,312
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	2,694	(2,013)	1,225	(1,665)	(1,400)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(1,521)	(1,691)	(1,183)	(2,021)	(2,366)
Other financing activities	-	-	-	-	-
Cash flow from fin. (c)	1,173	(3,704)	42	(3,686)	(3,766)
Net chg in cash (a+b+c)	5,076	(4,664)	21,615	3,878	4,546

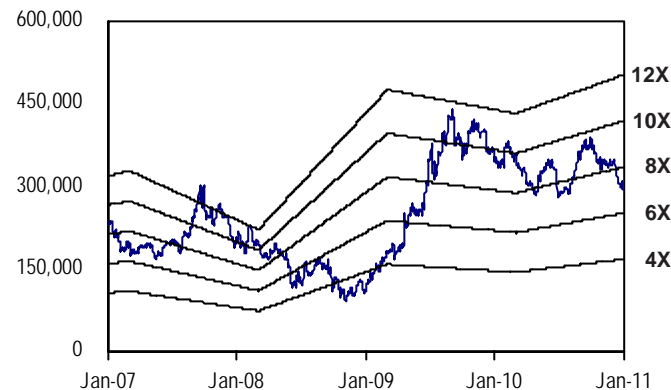
Balance Sheet	FY08	FY09	FY10	FY11E	FY12E
Equity capital	1,445	1,445	1,445	1,445	1,445
Reserves & surplus	82,709	92,004	116,906	136,854	160,498
Shareholders' funds	84,154	93,449	118,351	138,299	161,943
Preference Share Capital	-	-	-	-	-
Total Debt	9,002	6,989	8,214	6,549	5,149
Capital Employed	93,156	100,438	126,565	144,848	167,092
Net fixed assets	40,328	49,321	54,123	69,146	87,805
Cash & Cash Eq.	51,961	47,297	68,912	72,790	77,336
Net other Current Assets	(583)	1,545	1,064	596	(215)
Investments	3,151	3,826	3,836	3,836	3,836
Net Deferred Tax Assets	(1,701)	(1,551)	(1,370)	(1,520)	(1,670)
Total assets	93,156	100,438	126,565	144,848	167,092

Key Ratios	FY08	FY09	FY10	FY11E	FY12E
EBITDA (%)	14.9	8.9	13.4	9.9	9.9
Net margin (%)	9.7	6.0	8.6	6.3	6.2
Dividend yield (%)	0.4	0.3	0.5	0.6	0.6
Net debt/Equity (x)	(0.5)	(0.4)	(0.5)	(0.5)	(0.4)
Net Working Capital (days)	(5)	(17)	(8)	(9)	(9)
Asset turnover (x)	1.6	1.6	1.9	1.9	1.9
ROCE (%)	29.5	17.4	31.3	22.8	23.6
RoE (%)	22.7	13.7	23.6	17.4	17.6
EV/Net sales (x)	1.8	1.6	1.0	0.8	0.7
EV/EBITDA (x)	11.5	17.1	7.5	8.1	6.6
PER (x)	20.6	29.2	14.3	16.0	13.5
Price/Book (x)	4.2	3.8	3.0	2.6	2.2

P/E Band



EV/EBITDA



T E A M

EQUITY DESK

Sadanand Raje	Head - Institutional Sales Technical Analyst	sadanand.raje@pinc.co.in	91-22-6618 6366
---------------	---	--	-----------------

RESEARCH

Vineet Hetamasaria, CFA	Auto, Cement	vineet.hetamasaria@pinc.co.in	91-22-6618 6388
Nikhil Deshpande	Auto, Auto Ancillary, Cement	nikhil.deshpande@pinc.co.in	91-22-6618 6339
Vinod Nair	Construction, Power, Capital Goods	vinod.nair@pinc.co.in	91-22-6618 6379
Ankit Babel	Capital Goods	ankit.b@pinc.co.in	91-22-6618 6551
Hitul Gutka	Power	hitul.gutka@pinc.co.in	91-22-6618 6410
Subramaniam Yadav	Construction	subramaniam.yadav@pinc.co.in	91-22-6618 6371
Madhura Joshi	Power	madhura.joshi@pinc.co.in	91-22-6618 6395
Satish Mishra	Fertiliser, Engineering	satish.mishra@pinc.co.in	91-22-6618 6488
Urvashi Biyani	Fertiliser, Engineering	urvashi.biyani@pinc.co.in	91-22-6618 6334
Naveen Trivedi	FMCG	naveent@pinc.co.in	91-22-6618 6384
Rohit Kumar Anand	IT Services	rohit.anand@pinc.co.in	91-22-6618 6372
Karan Taurani	IT Services	karan.taurani@pinc.co.in	91-22-6618 6382
Namrata Sharma	Media	namrata.sharma@pinc.co.in	91-22-6618 6412
Ronak Bakshi	Media	ronak.bakshi@pinc.co.in	91-22-6618 6411
Bikash Bhalotia	Metals, Mining	bikash.bhalotia@pinc.co.in	91-22-6618 6387
Harleen Babber	Metals, Mining	harleen.babber@pinc.co.in	91-22-6618 6389
Dipti Vijaywargi	Metals, Mining	dipti.vijaywargi@pinc.co.in	91-22-6618 6393
Sushant Dalmia, CFA	Pharma	sushant.dalmia@pinc.co.in	91-22-6618 6462
Suman Memani	Real Estate, Mid caps	suman.memani@pinc.co.in	91-22-6618 6479

SALES

Rajeev Gupta	Equities	rajeev.gupta@pinc.co.in	91-22-6618 6486
Himanshu Varia	Equities	himanshu.varia@pinc.co.in	91-22-6618 6342
Shailesh Kadam	Derivatives	shaileshk@pinc.co.in	91-22-6618 6349
Ganesh Gokhale	Derivatives	ganeshg@pinc.co.in	91-22-6618 6347

DEALING

Mehul Desai	Head - Sales Trading	mehul.desai@pinc.co.in	91-22-6618 6303
Naresh Panjnani	Co-Head - Sales Trading	naresh.panjnani@pinc.co.in	91-22-6618 6333
Amar Margaje		amar.margaje@pinc.co.in	91-22-6618 6327
Ashok Savla		ashok.savla@pinc.co.in	91-22-6618 6321
Sajjid Lala		sajjid.lala@pinc.co.in	91-22-6618 6337
Raju Bhavsar		rajub@pinc.co.in	91-22-6618 6322
Kinjal Mehta		kinjal.mehta@pinc.co.in	91-22-6618 6333
Chandani Bhatia		chandani.bhatia@pinc.co.in	91-22-6618 6324
Hasmukh D. Prajapati		hasmukhp@pinc.co.in	91-22-6618 6325
Kamlesh Purohit		kamlesh.purohit@pinc.co.in	91-22-6618 6357

SINGAPORE DESK

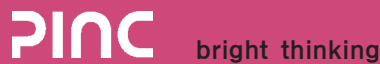
Amul Shah		amul.shah@sg.pinc.co.in	0065-63270626/27/28
-----------	--	--	---------------------

DIRECTORS

Gaurang Gandhi		gaurangg@pinc.co.in	91-22-6618 6400
Hemang Gandhi		hemangg@pinc.co.in	91-22-6618 6400
Ketan Gandhi		ketang@pinc.co.in	91-22-6618 6400

COMPLIANCE

Rakesh Bhatia	Head Compliance	rakeshb@pinc.co.in	91-22-6618 6400
---------------	-----------------	--	-----------------



Infinity.com

Financial Securities Ltd

SMALL WORLD, INFINITE OPPORTUNITIES

Member : Bombay Stock Exchange & National Stock Exchange of India Ltd. : Sebi Reg No: INB 010989331. Clearing No : 211
1216, Maker Chambers V, Nariman Point, Mumbai - 400 021; Tel.: 91-22-66186633/6400 Fax : 91-22-22049195

Disclaimer: This document has been prepared by the Research Desk of M/s Infinity.com Financial Securities Ltd. (PINC) and is meant for use of the recipient only and is not for public circulation. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

The information contained herein is obtained and collated from sources believed reliable and PINC has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The opinion expressed or estimates made are as per the best judgement as applicable at that point of time and PINC reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

PINC, its affiliates, their directors, employees and their dependant family members may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of PINC. The views expressed are those of analyst and the PINC may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither PINC, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with PINC and this document is not to be reported or circulated or copied or made available to others.

Our reports are also available on Reuters, Thomson Publishers and Bloomberg PINV <GO>