

# Maruti Suzuki India

30 July 2012

 AsiaMoney's Brokers  
 Poll 2012

Reuters: MRTI.BO; Bloomberg: MSIL IN

## Realisations Surprise Positively

Maruti Suzuki India's (MSIL) 1QFY13 earnings at Rs4.23bn missed our estimate by 10% on account of increase in other expenditure and lower other income. Net sales for the quarter were 8% higher than our estimate due to richer product mix and higher realisation due to price hikes and rupee depreciation. EBITDA margin at 7.3% was 40bps below our estimate on account of increase in other expenditure (higher royalty outgo and also higher power and fuel costs), driven by adverse rupee movement. Other income at Rs1.2 bn was significantly down 39% YoY, which led earnings to miss our estimate by 10%. Given the strong growth in realisation, we have revised our net sales estimates upwards, while lower-than-expected EBITDA margin led us to trim EBITDA margin estimates for FY13E/FY14E by 75bps and 34bps respectively. We have also cut our volume assumptions by 2.4% to 1.24 mn for FY13E in the wake of the lockout at Manesar plant. Our earnings estimates stand revised downwards by 7.6%/3.4% for FY13E/FY14E. We retain our Buy rating on the stock with a revised target price of Rs1,336 (13.5x FY14E earnings).

**Higher realisation drive sales and EBITDA:** Net sales for the quarter at Rs108bn grew 27.5% YoY driven by strong 11.6% QoQ growth in realisation on account of richer product mix, price hikes and the benefits of rupee depreciation. Due to higher realisation, sales at Rs108bn were 8% higher than our estimate. EBITDA margin at 7.3% were flat QoQ, but down sharply by 230bps YoY, largely due to adverse currency movement which led to higher input costs and higher royalty outgo. However, due to higher net sales, absolute EBITDA at Rs7.9bn was 3% higher than our estimate.

**PAT misses estimates:** Despite reporting higher-than-expected EBITDA, PAT at Rs 4.23bn missed our earnings estimate by 10% as other income for the quarter was lower than expected. Other income was sharply down 39% YoY to Rs1.3bn. However, the impact of lower other income was partly negated by lower tax rate, which was at 19.4%, down 100bps QoQ.

**Change in FY13/ FY14 estimates:** We have reduced our FY13E volume assumptions by 2.4% to Rs1.24mn to factor in loss of production due to the lockout at Manesar plant. However, our FY14 volume assumptions remain unchanged. Given the lower profitability in 1QFY13, we have reduced FY13E/FY14E EBITDA margin estimates by 75bps and 34 bps to 7.4%/8.7%, respectively. Following the changes in our assumptions, our FY13E/FY14 earnings estimates stand revised downwards by 7.6% /3.4%, respectively.

**Outlook:** 2QFY13, in our view, will be the worst quarter for the company as the full effect of adverse currency movement in 1QFY13 will get reflected. Further, the lockout at the Manesar plant will impact operating leverage and profitability in 2QFY13. The stock has corrected ~9% after the recent labour problems and currently trades at 11x FY14E EPS, which makes the current valuation attractive. We expect vehicle demand to recover from 2HFY13 onwards, which makes us believe that FY14 will be a good year for the company in terms of profitability too. We retain our Buy rating on the stock with a revised target price of Rs1,336 (13.5x FY14E EPS),

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## BUY

Sector: Automobile

CMP: Rs1,113

Target Price: Rs1,336

Upside: 20%

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### Key Data

Current Shares O/S (mn)	288.9
Mkt Cap (Rsbn/US\$bn)	321.5/5.8
52 Wk H / L (Rs)	1,429/900
Daily Vol. (3M NSE Avg.)	1,122,448

### Price Performance (%)

	1 M	6 M	1 Yr
Maruti Suzuki	(0.8)	(8.1)	(8.0)
Nifty Index	(0.8)	(2.0)	(8.1)

Source: Bloomberg

Y/E March (Rsmn)	Q1FY12	Q4FY12	Q1FY13	% Chg YoY	% Chg QoQ
Net sales	84,541	117,270	107,782	27.5	(8.1)
Expenditure	76,437	108,685	99,919	30.7	(8.1)
EBITDA	8,104	8,585	7,863	(3.0)	(8.4)
EBITDA margin (%)	9.6	7.3	7.3	(230)bps	-
Other income	1,841	2,969	1,123	(39)	(62)
Interest	58	208	332	(39.0)	(62.2)
Depreciation	2,425	3,306	3,399	40.2	2.8
PBT	7,462	8,040	5,255	(29.6)	(34.6)
Tax	1,970	1,642	1,018	(48.3)	(38.0)
PAT	5,492	6,398	4,238	(22.8)	(33.8)
EPS (Rs)	19.0	22.1	14.7	(22.8)	(33.8)

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	293,253	365,747	355,871	430,443	506,858
EBITDA	36,531	31,990	25,129	32,058	44,123
PAT	24,976	22,886	16,352	20,011	28,590
EPS	86.4	79.2	56.6	69.3	99.0
EBITDA margin (%)	12.5	8.7	7.1	7.4	8.7
P/E	12.9	14.1	19.7	16.1	11.2
P/BV (x)	2.7	2.3	2.1	1.9	1.6
EV/EBITDA	8.5	9.7	12.3	9.6	7.0
RoE (%)	23.6	17.8	11.3	12.5	15.7
RoCE (%)	22.2	17.2	11.0	12.0	15.3

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Our revised estimates for FY13E

(Rsmn)	FY13E			FY14E		
	Old	New	Change (%)	Old	New	Change (%)
Volume	1,272,747	1,242,747	(2.4)	1,491,914	1,491,914	0.0
Sales	413,061	430,443	4.2	499,308	506,858	1.5
EBITDA	33,853	32,058	(5.3)	45,146	44,123	(2.3)
PAT	21,646	20,011	(7.6)	29,596	28,590	(3.4)

Source: Company, Nirmal Bang Institutional Equities Research

**Outlook:** MSIL is currently going through a tough phase as labour issues have sprung up again at the company's Manesar plant. The plant enters its 13th day of lockout today, which will have a negative impact on the profitability of the company in 2QFY13, as the plant manufactures high-margin diesel cars such as Swift and Dzire. Although it is too difficult for us to take a call on how long the lockout will last, we currently factor in overall production loss of 30,000 units in FY13E. However, having said this we continue to retain our Buy rating on the stock as we believe that FY14 will be a stable year for MSIL in terms of demand for cars, which we expect to pick up from 2HFY13. Further, profitability is expected to improve in FY14 with additional diesel engine capacity expected to come on stream from 2QFY14. The stock has corrected ~9% after the recent labour problems and at current market price it trades at 11x FY14E earnings. However, we have revised our target price to Rs1,336 from Rs1,383 earlier (13.5x, FY14E earnings)

## Ratings history

Date	Rating	Market price (Rs)	Target price (Rs)
14 May 2012	Buy	1,235	1,459
24 May 2012	Buy	1,151	1,383
13 June 2012	Buy	1,143	1,383
12 July 2012	Buy	1,196	1,383

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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