

## MARUTI SUZUKI INDIA

HOLD  
CMP Rs1,551  
TP Rs1,586

01 November 2010

### Bang On Target

**Maruti Suzuki's (MSIL) Q2FY11 results were inline with our estimates as the company reported a 5% growth in net profits to Rs6bn. On an impressive volume growth of 27.4% net sales were up 26.8% to Rs91bn. Increase in raw material costs and hike in royalty payments led to a 220bps contraction in margins to 10.5%.**

**De-bottlenecking to achieve volume growth:** During the start of FY11, surprised by the spurt in demand, MSIL faced a severe capacity constraint. Through de-bottlenecking in Q2FY11, the installed capacity was increased by 10% to 110k units/month. This helped the company to achieve an impressive volume growth of 27.4% at an average monthly run-rate of 105k units.

**Market share gain:** Decline in exports (down 3.7% YoY) led to more focus on domestic sales which grew by 26.5% YoY to 236k units. Car segment market share improved 60bps QoQ to 48.2% while MPV market share expanded by 926bps to 31.8% helped by the Eeco launch. Although the company undertook price hikes, drop in export realisations due to weaker Euro resulted in flat average realisations. Net sales increased by 27% to Rs91bn.

**Raw material cost and royalty impact margins:** Raw material cost per vehicle increased by 1.8% to Rs226k/unit as the company ceded price hikes to vendors effective 1st April'10. The company also had hiked royalty payments to its parent during Q1FY11 due to which royalty as a percentage of sales was higher by 231bps at 5.2%. Margins contracted by 220bps to 10.5%. Net profits at Rs6bn were up 5% and were in line with our estimates.

**Outlook:** In wake of the increased capacity we have marginally raised our volume estimates for FY11 and FY12 to 1.24mn and 1.40mn units respectively. To account for the raw material cost pressures faced we have reduced margin estimates by ~20bps each. As a result of these mutually counter effective changes, our earnings estimate for FY11 and FY12 remains unchanged at Rs80.8 and Rs99.1 respectively.

### VALUATIONS AND RECOMMENDATION

The stock is currently trading at 15.6x its FY12 earnings estimate. We reiterate a 'HOLD' recommendation with a target price of Rs1,586 discounting FY12E earnings 16x.

KEY FINANCIALS						Rs mn
	FY08	FY09	FY10	FY11E	FY12E	
Net Sales	178,603	203,583	289,585	353,277	416,780	
YoY Gr. (%)	22.4	14.0	42.2	22.0	18.0	
EBITDA	27,358	18,445	39,651	38,451	46,950	
EBITDA Marg. (%)	14.9	8.9	13.4	10.7	11.0	
Adjusted Net Profit	17,308	12,187	24,976	23,355	28,641	
YoY Gr. (%)	10.8	(29.6)	104.9	(6.5)	22.6	
KEY RATIOS						
Dil. EPS (Rs)	59.9	42.2	86.4	80.8	99.1	
ROCE (%)	29.5	17.4	31.3	24.4	25.6	
RoE (%)	22.7	13.7	23.6	18.1	18.8	
PER (x)	25.9	36.8	17.9	19.2	15.6	
EV/Net sales (x)	2.3	2.0	1.3	1.1	0.9	
EV/EBITDA (x)	14.8	22.1	9.8	9.9	7.9	

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### QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-10	Jun-10	Sep-10
Net Sales	84,246	82,315	91,473
YoY Gr. (%)	31.0	26.8	27.0
EBIDTA	11,111	7,925	9,603
EBIDTA Mar %	13.2	9.6	10.5
Adj. Net Profit	6,566	4,654	5,982
YoY Gr. (%)	170.0	(20.3)	5.0

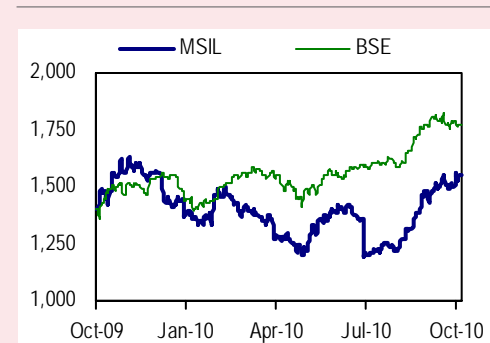
### STOCK DATA

Market Cap	Rs448.3bn
Book Value per share	Rs409.6
Eq Shares O/S (F.V. Rs5)	289mn
Free Float	47.4%
Avg Traded Value (6 mnths)	Rs0.9bn
52 week High/Low	Rs1658/1171
Bloomberg Code	MSIL IN
Reuters Code	MRTI.BO

### PERFORMANCE (%)

	1M	3M	12M
Absolute	7.7	29.5	10.6
Relative	7.8	17.4	(15.5)

### RELATIVE PERFORMANCE



**Q2FY11 Performance and Concall Highlights**

- With new high profile launches in the MSIL's stronghold of A2 segment, the company lost market share during the previous two quarters. However, the company has been upto the task during Q2FY11 and has succeeded in regaining a part of its lost market share with a 30% growth in the segment. Its market share in the segment during Q2FY11 has clawed back to 56% levels.
- Total domestic sales aided by growth in the A2 segment and MPV segment, were up 26.5% to 236k units. MPV segment volumes were up 87.4% to 42k units due to strong demand for 'Eeco'. With buoyant conditions in the domestic market, discounting in the system has lowered. Average discounts in Q2FY11 were lower by 18% YoY at Rs8.5k/unit.
- Exports on the other hand declined 3.7% YoY to 36k units. Ending of scrappage schemes in Europe led to a fall in the market. However the company has done well to compensate the volumes lost in European markets by increasing its exports to other geographies. The profitability on exports declined as INR appreciated compared to the Euro.
- In Q1FY11, the company faced severe capacity constraint leading to an underperformance compared to the industry and a tangible market share loss. During the quarter, through a de-bottlenecking exercise, the company achieved a 10% increase in capacity to 110units/month. MSIL has further laid out plans to add 0.5mn annual capacity at its Manesar plant in two phases. The first phase is scheduled to be commissioned during Q3FY12 while the second phase will get completed in FY13.
- On the issue of nature of partnership with Volkswagen, the company stated that discussions were ongoing between parent Suzuki Motor, Japan and Volkswagen, Germany. MSIL is currently not a party to the discussions.
- The management reiterated its desire to construct regional warehousing facility and display rooms across the country. The first warehouse is coming up near Bangalore and will be operational by Q1FY12. Display rooms will be established across 16 major cities and few of them are scheduled to be operational by Q1FY12.
- MSIL launched CNG variants of six models in select markets across the country. The management stated that these models have received a good response. In high CNG penetration markets of Delhi and Gujarat, these variants now account for 16% of the sales.
- MSIL currently has diesel variants only on three of its existing models i.e. Swift, Ritz and Dzire all powered by a 1.3ltr engine. Diesel variants account for upwards of 50% in these models and are currently averaging 17k units per month. The company has no plan to launch any other diesel variant in the near future.
- The yen appreciation has impacted the company's profitability due to its exposure to imports and royalty payments in yen. Total import content including royalty is currently at 28% with 80% in yen terms. MSIL has hedged 25% of import exposure for the year. Similarly 80% of the exports have been hedged.
- During the quarter, company has given price increases to its vendors which are effective from April-2010. Hence the current quarter, raw material cost also includes impact of price increase of Q1FY11.

**Financial Table**

(Rs mn.)	Sep-10	Sep-09	YoY(%)	Jun-10	QoQ(%)	H1FY11	H1FY10	YoY(%)
<b>Net Sales</b>	<b>89,371</b>	<b>70,496</b>	<b>26.8</b>	<b>80,507</b>	<b>11.0</b>	<b>169,878</b>	<b>133,898</b>	<b>26.9</b>
<b>Operating profit</b>	<b>7,502</b>	<b>7,631</b>	<b>(1.7)</b>	<b>6,117</b>	<b>22.6</b>	<b>13,618</b>	<b>14,035</b>	<b>(3.0)</b>
Operating profit margins %	8.4	10.8	-240 bps	7.6	80 bps	8.0	10.5	-250 bps
Other Operating Income	2,102	1,530	37.3	1,809	16.2	3,910	3,058	27.9
<b>EBIDTA</b>	<b>9,603</b>	<b>9,161</b>	<b>4.8</b>	<b>7,925</b>	<b>21.2</b>	<b>17,528</b>	<b>17,093</b>	<b>2.5</b>
EBIDTA margins %	10.5	12.7	-220 bps	9.6	90 bps	10.1	12.5	-240 bps
Other Income	1,340	1,100	21.8	1,002	33.7	2,342	3,265	(28.3)
Interest	97	60	62.8	80	21.8	177	123	44.1
Depreciation	2,382	2,031	17.3	2,417	(1.5)	4,799	3,992	20.2
<b>PBT</b>	<b>8,464</b>	<b>8,171</b>	<b>3.6</b>	<b>6,430</b>	<b>31.6</b>	<b>14,894</b>	<b>16,244</b>	<b>(8.3)</b>
Tax	2,481	2,471	0.4	1,777	39.7	4,258	4,708	(9.6)
% PBT	29.3	30.2	-90 bps	27.6	170 bps	28.6	29.0	-40 bps
<b>PAT</b>	<b>5,982</b>	<b>5,700</b>	<b>5.0</b>	<b>4,654</b>	<b>28.6</b>	<b>10,636</b>	<b>11,535</b>	<b>(7.8)</b>
NPM (%)	6.7	8.1	-140 bps	5.8	90 bps	6.3	8.6	-240 bps
<b>EPS</b>	<b>20.7</b>	<b>19.7</b>	<b>5.0</b>	<b>16.1</b>	<b>28.6</b>	<b>36.8</b>	<b>39.9</b>	<b>(7.8)</b>

**Vehicle sales**

(Unit)	Sep-10	Sep-09	YoY(%)	Jun-10	QoQ(%)	H1FY11	H1FY10	YoY(%)
<b>Total Sales</b>	<b>313,654</b>	<b>246,190</b>	<b>27.4</b>	<b>283,324</b>	<b>10.7</b>	<b>596,978</b>	<b>472,919</b>	<b>26.2</b>
Domestic	277,936	209,085	32.9	242,887	14.4	520,823	406,500	28.1
Exports	35,718	37,105	(3.7)	40,437	(11.7)	76,155	66,419	14.7
<b>Total Cars</b>	<b>270,738</b>	<b>222,779</b>	<b>21.5</b>	<b>246,340</b>	<b>9.9</b>	<b>517,078</b>	<b>425,662</b>	<b>21.5</b>
Domestic	235,522	186,111	26.5	206,377	14.1	441,899	359,910	22.8
Exports	35,216	36,668	(4.0)	39,963	(11.9)	75,179	65,752	14.3
<b>Total MUVs</b>	<b>42,916</b>	<b>23,411</b>	<b>83.3</b>	<b>36,984</b>	<b>16.0</b>	<b>79,900</b>	<b>47,257</b>	<b>69.1</b>
Domestic	42,414	22,974	84.6	36,510	16.2	78,924	46,590	69.4
Exports	502	437	14.9	474	5.9	976	667	46.3

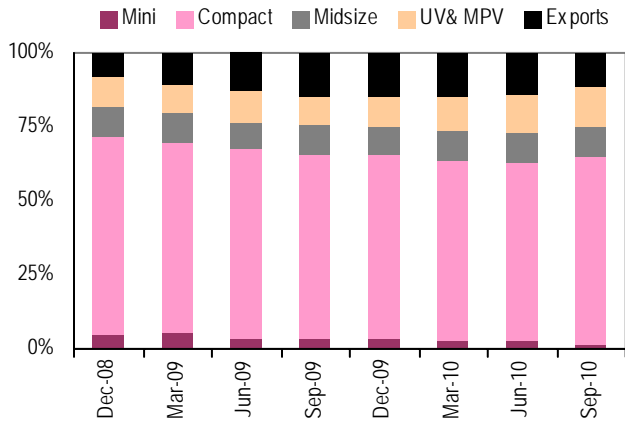
**(%) of Sales**

%	Sep-10	Sep-09	YoY (bps)	Jun-10	QoQ (bps)	H1FY11	H1FY10	YoY (bps)
Material cost	79.2	77.4	180	79.6	(50)	79.4	77.7	160
Staff cost	1.8	1.8	0	2.0	(20)	1.9	1.9	(10)
Other Expenses	10.7	10.0	70	10.8	(10)	10.7	9.8	90
<b>Operating profit</b>	<b>8.4</b>	<b>10.8</b>	<b>(240)</b>	<b>7.6</b>	<b>(80)</b>	<b>8.0</b>	<b>10.5</b>	<b>(250)</b>

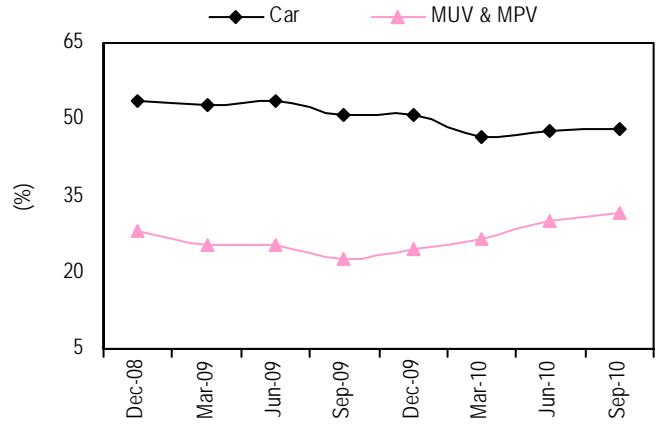
**Per Vehicle**

(Rs)	Sep-10	Sep-09	YoY(%)	Jun-10	QoQ(%)	H1FY11	H1FY10	YoY(%)
Realisations	284,935	286,347	(0.5)	284,151	0.3	284,563	283,132	0.5
Material cost	225,587	221,599	1.8	226,251	(0.3)	225,902	220,135	2.6
Employee cost	5,000	5,129	(2.5)	5,681	(12.0)	5,323	5,494	(3.1)
Other Expenses	30,432	28,623	6.3	30,630	(0.6)	30,526	27,825	9.7
<b>Operating profit</b>	<b>23,916</b>	<b>30,997</b>	<b>(22.8)</b>	<b>21,588</b>	<b>10.8</b>	<b>22,812</b>	<b>29,678</b>	<b>(23.1)</b>

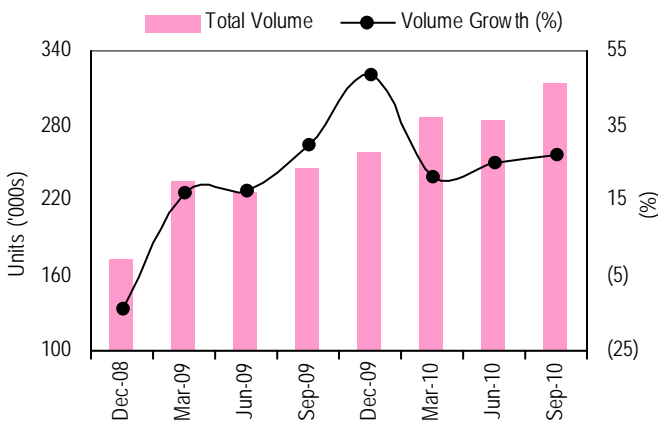
**Product Mix**



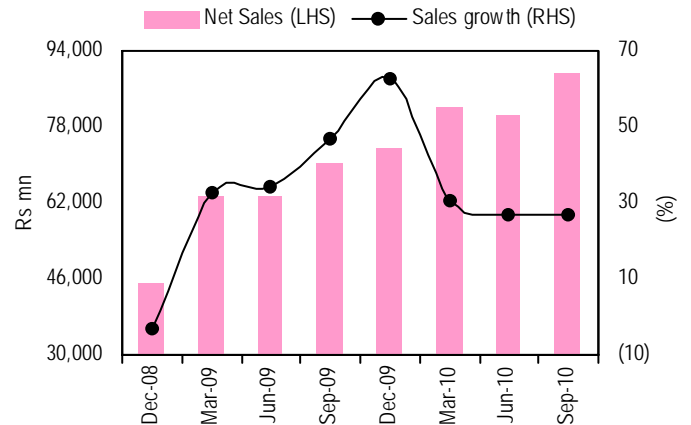
**Domestic Marketshare**



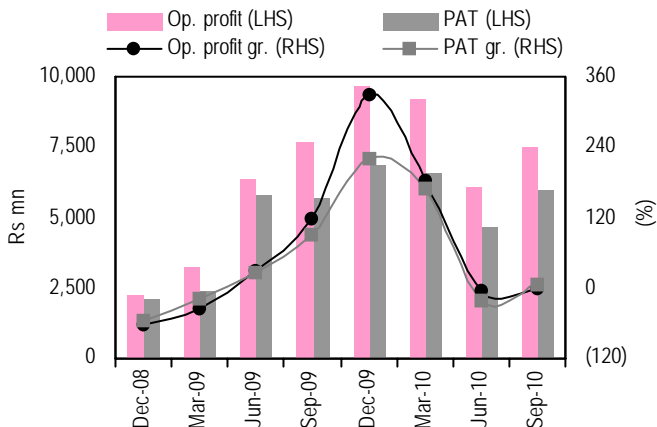
**Total Sales Volume**



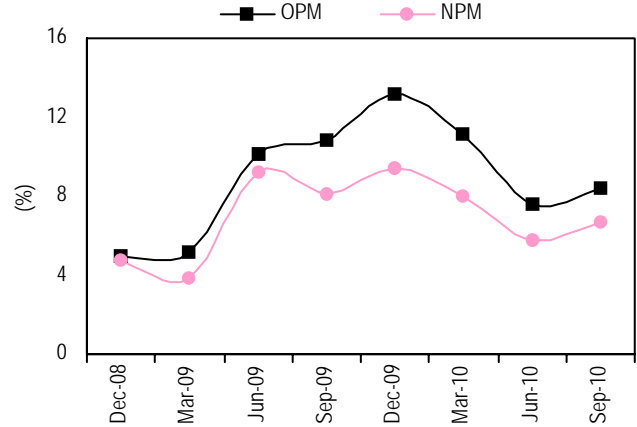
**Net Sales**



**Net Profits**



**Profitability Trend**



Year Ended March (Figures in Rs mn)

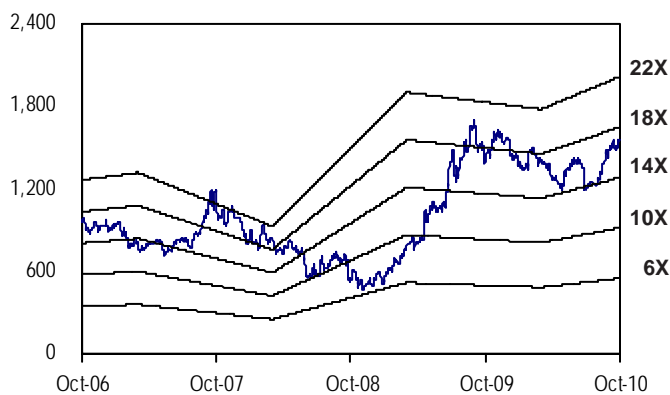
Income Statement	FY08	FY09	FY10	FY11E	FY12E
Net sales	178,603	203,583	289,585	353,277	416,780
Growth (%)	22.4	14.0	42.2	22.0	18.0
Operating profit	22,202	15,345	33,140	30,740	37,932
Other operating income	5,156	3,100	6,511	7,711	9,018
EBITDA	27,358	18,445	39,651	38,451	46,950
Growth (%)	19.6	(32.6)	115.0	(3.0)	22.1
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	33,818	41,186
Interest paid	(596)	(510)	(335)	(300)	(300)
PBT (before E/o items)	25,030	16,758	35,925	33,518	40,886
Tax provision	(7,722)	(4,571)	(10,949)	(10,163)	(12,245)
E/o Income / (loss)	-	-	-	-	-
Net profit	17,308	12,187	24,976	23,355	28,641
Adjusted net profit	17,308	12,187	24,976	23,355	28,641
Growth (%)	10.8	(29.6)	104.9	(6.5)	22.6
Diluted EPS (Rs)	59.9	42.2	86.4	80.8	99.1
Diluted EPS Growth (%)	10.8	(29.6)	104.9	(6.5)	22.6

Cash Flow Statement	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	25,030	16,758	35,925	33,518	40,886
Depreciation	5,017	6,610	7,322	9,601	11,516
Total tax paid	(8,426)	(4,310)	(10,007)	(10,971)	(11,887)
Chg in working capital	357	(2,031)	(1,480)	1,194	196
Other operating activities	-	(1,709)	1,947	-	-
Cash flow from oper. (a)	21,978	15,318	33,707	33,342	40,711
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	8,718	10,536
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	5,032	6,770

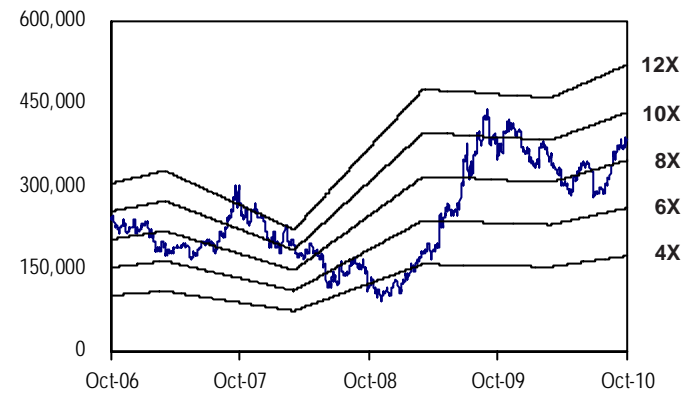
Balance Sheet	FY08	FY09	FY10	FY11E	FY12E
Equity capital	1,445	1,445	1,445	1,445	1,445
Reserves & surplus	82,709	92,004	116,906	137,895	163,832
Shareholders' funds	84,154	93,449	118,351	139,340	165,277
Preference Share Capital	-	-	-	-	-
Total Debt	9,002	6,989	8,214	6,549	5,149
Capital Employed	93,156	100,438	126,565	145,889	170,426
Net fixed assets	40,328	49,321	54,123	69,146	87,805
Cash & Cash Eq.	51,961	47,297	68,912	73,944	80,715
Net other Current Assets	(583)	1,545	1,064	483	(260)
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	145,889	170,426

Key Ratios	FY08	FY09	FY10	FY11E	FY12E
EBITDA (%)	14.9	8.9	13.4	10.7	11.0
Net margin (%)	9.7	6.0	8.6	6.6	6.9
Dividend yield (%)	0.3	0.2	0.4	0.5	0.5
Net debt/Equity (x)	(0.5)	(0.4)	(0.5)	(0.5)	(0.5)
Net Working Capital (days)	(5)	(17)	(8)	(9)	(10)
Asset turnover (x)	1.6	1.6	1.9	1.9	1.9
ROCE (%)	29.5	17.4	31.3	24.4	25.6
RoE (%)	22.7	13.7	23.6	18.1	18.8
EV/Net sales (x)	2.3	2.0	1.3	1.1	0.9
EV/EBITDA (x)	14.8	22.1	9.8	9.9	7.9
PER (x)	25.9	36.8	17.9	19.2	15.6
Price/Book (x)	5.3	4.8	3.8	3.2	2.7

P/E Band



EV/EBITDA



## T E A M

### EQUITY DESK

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