

November 1, 2010

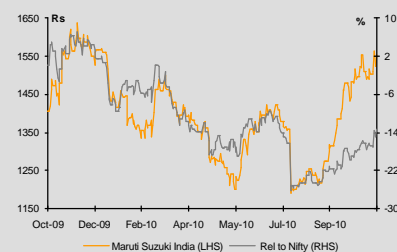
Reco	Previous Reco
Hold	Accumulate
CMP	Target Price
Rs1,551	Rs 1,600
EPS change FY11E/12E (%)	-3 / -4
Target Price change (%)	10
Nifty	6,018
Sensex	20,032

### Price Performance

(%)	1M	3M	6M	12M
Absolute	8	30	21	13
Rel. to Nifty	8	16	6	(11)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Automobiles
Bloomberg	MSIL@IN
Equity Capital (Rs mn)	1445
Face Value(Rs)	5
No of shares o/s (mn)	289
52 Week H/L	1,658/1,171
Market Cap (Rs bn/USD mn)	448/10,062
Daily Avg Volume (No of sh)	622062
Daily Avg Turnover (US\$m)	19.0

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	54.2	54.2	54.2
FII/NRI	20.2	20.2	21.2
Institutions	17.0	17.0	16.7
Private Corp	6.0	6.0	5.6
Public	2.6	2.6	2.3

Source: Capitaline

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- **Results marginally below est. due to lower sales and higher tax rate. APAT at Rs 6.2bn (est. Rs 6.4bn). Adj EBIDT at Rs 9.9bn (es. -Rs 10.3bn), margins at 10.8% (est. 11.0%)**
- **Yen depreciation/price hike crucial for margin upgrades/stock performance. Lower JPY/Re est. for FY12 to 1.85 (from 1.9). 2HFY11 margins to be lower by 70 bps due to currency**
- **Upgrade FY11E/FY12E volumes est. by 2.6% to 1.26mn/1.44mn units. Lower FY11E/FY12E EPS by 3.5% to Rs 85.7/Rs 98. Price hike not assumed, due to lack of intent**
- **Downgrade rating to HOLD, however raise TP to Rs 1600 (up 10%) due to valuation upgrade (8.5x EV/EBIDTA) due to strong volume outlook and higher return ratios**

### Net Sales – below expectation

Net sales at Rs 91.5 bn was below est. of Rs 93.6bn primarily due to lower average realizations per vehicle. Volume grew by 27.4% YoY and 10.7% QoQ. Avg. realization per vehicle stood at Rs 284,935 (flat YoY & QoQ) against expectation of Rs 292,076.

Product mix %	2QFY10	2QFY11	1QFY11
M-800	3.5	1.7	2.4
Omni, Versa	9.0	13.3	11.8
Alto, Wagon -R, Zen, Swift	62.2	63.4	60.2
Esteem, SX4, Dzire	9.9	10.0	10.2
Gypsy, Vitara	0.3	0.3	1.1
Exports	15.1	11.4	14.3
<b>Units sold (nos)</b>	<b>246,188</b>	<b>313,654</b>	<b>283,324</b>

Source: SIAM, Emkay research

### EBIDTA marginally below expectation due to lower net sales

EBIDTA at Rs 9.9bn was below our est. of Rs 10.3bn, due to lower net sales. EBIDTA margins at 10.8% marginally below expectation of 11.0%. RM to sales ratio stood at 77.0% against est. of 76.9%. We have lowered RM cost for the quarter by Rs 35bps as the quarter had the impact of price increases given to vendor from April 2010. Other Operating income was higher than our estimates due to higher scrap sales (Rs 170mn), cash discounts and forex gain (Rs 100mn).

### APAT marginally below expectation due lower topline and higher tax rate

Net profits stood at Rs 6.2bn was marginally below est. of Rs 6.5bn due to lower topline and a higher tax rate. Tax rate at 29.3% was higher by 170 bps against our est.

### Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
FY09	206,546	15,731	7.6	11,577	40.1	(33.7)	13.0	39.7	26.4	4.9
FY10	293,253	36,695	12.5	25,106	86.9	116.9	23.7	18.3	10.8	3.9
FY11E	383,646	36,496	9.5	24,756	85.7	(1.4)	19.1	18.6	10.4	3.3
FY12E	444,747	42,268	9.5	28,390	98.2	14.7	18.5	16.2	8.6	2.8

Source: Company, Emkay Research

## Quarterly Summary

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
<b>Revenue</b>	<b>72,026</b>	<b>75,029</b>	<b>84,246</b>	<b>82,315</b>	<b>91,473</b>	<b>27.0</b>	<b>11.1</b>	<b>173,788</b>	<b>136,956</b>	<b>26.9</b>
<b>Expenditure</b>	<b>62,865</b>	<b>63,689</b>	<b>73,135</b>	<b>73,739</b>	<b>81,557</b>	<b>29.7</b>	<b>10.6</b>	<b>155,516</b>	<b>119,864</b>	<b>29.7</b>
as % of sales	87.3	84.9	86.8	89.6	89.2			89.5	87.5	
Consumption of RM	54,555	55,901	64,127	64,102	70,443	29.1	9.9	134,767	104,106	29.5
as % of sales	75.7	74.5	76.1	77.9	77.0			77.5	76.0	
Employee Cost	1,263	1,325	1,534	1,610	1,568	24.2	(2.6)	3,178	2,598	22.3
as % of sales	1.8	1.8	1.8	2.0	1.7			1.8	1.9	
Other expenditure	7,047	6,464	7,474	8,027	9,545	35.5	18.9	17,572	13,159	33.5
as % of sales	9.8	8.6	8.9	9.8	10.4			10.1	9.6	
<b>EBITDA</b>	<b>9,161</b>	<b>11,339</b>	<b>11,111</b>	<b>8,577</b>	<b>9,916</b>	<b>8.2</b>	<b>15.6</b>	<b>18,272</b>	<b>17,093</b>	<b>6.9</b>
Depreciation	2,031	2,028	2,230	2,417	2,382	17.3	(1.5)	4,799	3,992	20.2
<b>EBIT</b>	<b>7,130</b>	<b>9,311</b>	<b>8,880</b>	<b>6,160</b>	<b>7,534</b>	<b>5.7</b>	<b>22.3</b>	<b>13,473</b>	<b>13,101</b>	<b>2.8</b>
Other Income	1,100	913	790	1,002	1,340	21.8	33.7	2,342	3,265	(28.3)
Interest	60	84	129	80	97			177	123	44.1
<b>PBT</b>	<b>8,171</b>	<b>10,140</b>	<b>9,542</b>	<b>7,082</b>	<b>8,777</b>	<b>7.4</b>	<b>23.9</b>	<b>15,638</b>	<b>16,243</b>	<b>(3.7)</b>
Total Tax	2,471	3,265	2,976	1,957	2,573	4.1	31.5	4,530	4,708	(3.8)
<b>Adjusted PAT</b>	<b>5,700</b>	<b>6,875</b>	<b>6,566</b>	<b>5,125</b>	<b>6,204</b>	<b>8.8</b>	<b>21.0</b>	<b>11,108</b>	<b>11,535</b>	<b>(3.7)</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
<b>Adj. PAT after MI</b>	<b>5,700</b>	<b>6,875</b>	<b>6,566</b>	<b>5,125</b>	<b>6,204</b>	<b>8.8</b>	<b>21.0</b>	<b>11,108</b>	<b>11,535</b>	<b>(3.7)</b>
Extra ordinary items	-	-	-	(471)	(221)			(471)	-	#DIV/0!
<b>Reported PAT</b>	<b>5,700</b>	<b>6,875</b>	<b>6,566</b>	<b>4,654</b>	<b>5,982</b>	<b>5.0</b>	<b>28.6</b>	<b>10,636</b>	<b>11,535</b>	<b>(7.8)</b>
<b>Reported EPS</b>	<b>19.7</b>	<b>23.8</b>	<b>22.7</b>	<b>16.1</b>	<b>20.7</b>	<b>5.0</b>	<b>28.6</b>	<b>36.8</b>	<b>39.9</b>	<b>(7.8)</b>

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	12.7	15.1	13.2	10.4	10.8	(188)	42	10.5	12.5	(197)
EBIT	9.9	12.4	10.5	7.5	8.2	(166)	75	7.8	9.6	(181)
EBT	11.3	13.5	11.3	8.6	9.6	(175)	99	9.0	11.9	(286)
PAT	7.9	9.2	7.8	6.2	6.8	(113)	56	6.4	8.4	(203)
Effective Tax rate	30.2	32.2	31.2	27.6	29.3	(92)	169	29.0	29.0	(2)

Source: Company, Emkay Research

## Valuations and View

At CMP of Rs 1,551, the stock trades at PER of 18.1x and 15.8x and EV/EBIDTA of 10.1x and 8.3x our FY11 and FY12 estimates respectively. We have revised our EPS estimate downward for FY11 & FY12 by 3.5% each to Rs 85.7 & Rs 98.2 respectively due to lower margin assumption due to currency est. We have valued the stock at EV/EBIDTA of 8.5x of FY12 estimates. We downgrade our rating to ACCUMULATE from HOLD, with a revised TP of Rs 1,600

## Revision in Estimates

Rs mn	FY11E			FY12E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	1,224,979	1,256,638	2.6	1,399,946	1,436,671	2.6
Sales	374,150	383,646	2.5	433,572	444,747	2.6
EBIDTA	37,765	36,496	(3.4)	43,770	42,268	(3.4)
EBIDTA margins (%)	10.1	9.5		10.1	9.5	
Net Profits	25,624	24,756	(3.4)	29,415	28,390	(3.5)
EPS	88.7	85.7	(3.4)	101.8	98.2	(3.5)

Source: Emkay Research

**Key Con Call Extracts**

- Forex Hedges – Has hedged 80% of exports and 25% of direct imports for next 6 months. However, is not hedged for any foreign currency exposure on vendor's end
- Average exchange rate for H1FY11 – Re/ Euro ~ Rs 62/ & Re/JPY ~ .506. Impact of adverse movement of currency (especially Yen) could be visible from Q3FY11 itself.
- Export sales stood at Rs 21.2 bn fro H1FY11.
- Export market mix ~ 50% each in Euro & USD. Key export markets other than Europe, Australia, New Zealand, Indonesia, Malaysia, Brunei etc.
- Import content (including royalty) is around 28% of net sales with 80% exposure in Yen
- Capacity – Current capacity stand at 1.1mn units. Additional .25 mn units will come on stream by Oct-Dec2011 at Manesar and another .25mn unit in FY13.
- Had a steel price settlement during the quarter with retrospective from Q1FY11. Around 50% of incremental increase in RM cost as a % of sales could be contributed to Q1FY11.
- Expect steel prices to remain flattish. Other commodities like natural rubber, copper and precious metals are hardening
- Company took price hikes in August in domestic market. Is not looking to take any further price hike in domestic or export market.
- Have introduced CNG product line in Mumbai, Delhi and Gujarat markets. CNG products form around 18-20% of total volumes in these markets
- Average discount during the quarter was ~ Rs 8500 during the quarter (Rs 8200 in Q1)
- Proportion of rural sale was around 19% for H1FY11.
- Capex guidance for FY11- Rs 28bn

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>206,546</b>	<b>293,253</b>	<b>383,646</b>	<b>444,747</b>
<i>Growth (%)</i>	14.0	42.0	30.8	15.5
<b>Expenditure</b>	<b>190,815</b>	<b>256,558</b>	<b>347,151</b>	<b>402,479</b>
Materials Consumed	160,672	221,998	298,373	347,775
Employee Cost	4,711	5,456	6,077	6,768
Other Exp	25,432	29,104	42,701	47,936
<b>EBITDA</b>	<b>15,731</b>	<b>36,695</b>	<b>36,496</b>	<b>42,268</b>
<i>Growth (%)</i>	(36.3)	133.3	(0.5)	15.8
<b>EBITDA margin (%)</b>	<b>7.6</b>	<b>12.5</b>	<b>9.5</b>	<b>9.5</b>
Depreciation	7,065	8,250	8,884	10,470
<b>EBIT</b>	<b>8,666</b>	<b>28,445</b>	<b>27,611</b>	<b>31,798</b>
<b>EBIT margin (%)</b>	<b>4.2</b>	<b>9.7</b>	<b>7.2</b>	<b>7.1</b>
Other Income	7,992	7,945	7,557	8,487
Interest expenses	510	335	300	300
<b>PBT</b>	<b>16,148</b>	<b>36,055</b>	<b>34,868</b>	<b>39,985</b>
<b>Tax</b>	<b>4,571</b>	<b>10,949</b>	<b>10,112</b>	<b>11,596</b>
<i>Effective tax rate (%)</i>	28.3	30.4	29.0	29.0
<b>Adjusted PAT</b>	<b>11,577</b>	<b>25,106</b>	<b>24,756</b>	<b>28,390</b>
<i>Growth (%)</i>	(33.1)	116.9	(1.4)	14.7
<b>Net Margin (%)</b>	<b>5.6</b>	<b>8.6</b>	<b>6.5</b>	<b>6.4</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-
<b>Adj. PAT After JVs/Ass/MI</b>	<b>11,577</b>	<b>25,106</b>	<b>24,756</b>	<b>28,390</b>
E/O items	610	(130)	(652)	-
<b>Reported PAT</b>	<b>12,187</b>	<b>24,976</b>	<b>24,104</b>	<b>28,390</b>
<i>Growth (%)</i>	(29.6)	116.9	(1.4)	14.7

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	8,156	28,110	27,311	31,498
Depreciation	7,065	8,250	8,884	10,470
Interest Provided	510	335	300	300
Other Non-Cash items	2,901	2,647	-	-
Chg in working cap	(2,128)	481	(2,707)	(491)
Tax paid	(4,571)	(10,949)	(10,112)	(11,596)
<b>Operating Cashflow</b>	<b>11,933</b>	<b>28,874</b>	<b>23,677</b>	<b>30,181</b>
Capital expenditure	(15,603)	(12,124)	(14,124)	(17,000)
<b>Free Cash Flow</b>	<b>(3,670)</b>	<b>16,750</b>	<b>9,553</b>	<b>13,181</b>
Other income	7,992	7,945	7,557	8,487
Investments	17,125	(43,654)	(8,000)	(8,000)
<b>Investing Cashflow</b>	<b>25,117</b>	<b>(35,709)</b>	<b>(443)</b>	<b>487</b>
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	(2,013)	1,225	-	-
Interest Paid	(510)	(335)	(300)	(300)
Dividend paid (incl tax)	(1,183)	(2,021)	(2,249)	(2,649)
Income from investments	-	-	-	-
Others	-	-	-	-
<b>Financing Cashflow</b>	<b>(5,362)</b>	<b>551</b>	<b>(2,549)</b>	<b>(2,949)</b>
<b>Net chg in cash</b>	<b>16,085</b>	<b>(18,408)</b>	<b>6,561</b>	<b>10,720</b>
Opening cash position	3,305	19,390	982	7,543
<b>Closing cash position</b>	<b>19,390</b>	<b>982</b>	<b>7,543</b>	<b>18,263</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	1,445	1,445	1,445	1,445
Reserves & surplus	92,004	116,906	138,762	164,503
<b>Net worth</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Minority Interest</b>	<b>93,449</b>	<b>118,351</b>	<b>140,207</b>	<b>165,948</b>
Secured Loans	1	265	265	265
Unsecured Loans	6,988	7,949	7,949	7,949
<b>Loan Funds</b>	<b>6,989</b>	<b>8,214</b>	<b>8,214</b>	<b>8,214</b>
Net deferred tax liability	1,551	1,370	1,370	1,370
<b>Total Liabilities</b>	<b>101,989</b>	<b>127,935</b>	<b>149,791</b>	<b>175,532</b>
Gross Block	87,206	104,067	112,067	132,067
Less: Depreciation	46,498	53,820	62,704	73,174
<b>Net block</b>	<b>40,708</b>	<b>50,247</b>	<b>49,363</b>	<b>58,893</b>
Capital work in progress	8,613	3,876	10,000	7,000
<b>Investment</b>	<b>31,733</b>	<b>71,766</b>	<b>79,766</b>	<b>87,766</b>
<b>Current Assets</b>	<b>54,911</b>	<b>37,724</b>	<b>68,414</b>	<b>88,725</b>
Inventories	9,023	12,088	15,586	18,076
Sundry debtors	9,189	8,099	15,586	18,076
Cash & bank balance	19,390	982	7,543	18,263
Loans & advances	16,328	15,707	28,851	33,461
Other current assets	981	848	848	848
<b>Current lia &amp; Prov</b>	<b>33,976</b>	<b>35,678</b>	<b>57,100</b>	<b>66,200</b>
Current liabilities	30,169	29,394	48,601	56,347
Provisions	3,807	6,284	8,499	9,853
<b>Net current assets</b>	<b>20,935</b>	<b>2,046</b>	<b>11,314</b>	<b>22,525</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>101,989</b>	<b>127,935</b>	<b>150,443</b>	<b>176,184</b>

## Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	7.6	12.5	9.5	9.5
Net Margin	5.6	8.6	6.5	6.4
ROCE	16.9	31.7	25.3	24.8
ROE	13.0	23.7	19.1	18.5
RoIC	23.2	60.8	52.9	54.7
<b>Per Share Data (Rs)</b>				
EPS	40.1	86.9	85.7	98.2
CEPS	64.5	115.4	116.4	134.5
BVPS	323.4	409.5	485.1	574.2
DPS	3.5	6.0	6.7	7.9
<b>Valuations (x)</b>				
PER	38.7	17.9	18.1	15.8
P/CEPS	24.0	13.4	13.3	11.5
P/BV	4.8	3.8	3.2	2.7
EV / Sales	2.0	1.3	1.0	0.8
EV / EBITDA	25.7	10.5	10.1	8.3
Dividend Yield (%)	0.2	0.4	0.4	0.5
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	(0.4)	(0.5)	(0.5)	(0.6)
Net Debt/EBIDTA	(2.6)	(1.7)	(2.0)	(2.2)
Working Cap Cycle (days)	(21.1)	(11.5)	(16.6)	(24.7)

**Recommendation History: Maruti Suzuki India – MSIL IN**

Date	Reports	Reco	CMP	Target
26/07/2010	<a href="#">Maruti Q1FY11 Result Update</a>	Reduce	1,358	1,275
27/04/2010	<a href="#">Maruti Q4FY10 Result Update</a>	Accumulate	1,335	1,600
25/01/2010	<a href="#">Maruti 3QFY10 Result Update</a>	Hold	1,440	1,480
26/10/2009	<a href="#">Maruti 2QFY10 Result Update</a>	Hold	1,517	1,520

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
29/10/2010	<a href="#">M&amp;M Q2FY11 Result Update</a>	Buy	732	880
29/10/2010	<a href="#">Hero Honda Q2FY11 Result Update</a>	Reduce	1,866	1,720
25/10/2010	<a href="#">TVS Motor Q2FY11 Result Update</a>	Reduce	74	72
25/10/2010	<a href="#">Ashok Leyland Q2FY11 Result Update</a>	Hold	75	76

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