

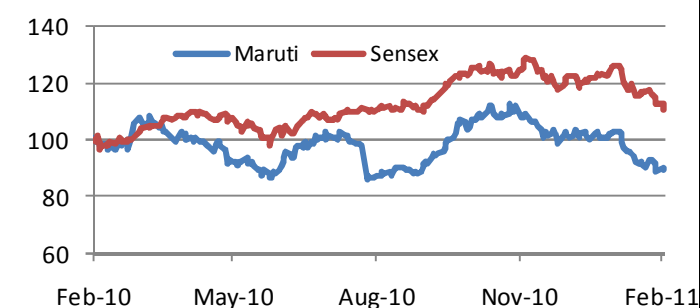
**Q3 FY11 Results Update**
**Maruti Suzuki India Ltd**

Recommendation	HOLD
CMP (03/02/2011)	Rs. 1218
Target	Rs 1425
Sector	Auto

**Stock Details**

BSE Code	532500
NSE Code	MARUTI
Bloomberg Code	MSIL IN
Market Cap (Rs. Crs)	35128.34
Free Float (%)	45.59%
52- wk HI/Lo	1599/1170
Avg. volume BSE (Quarterly)	38317
Face Value	Rs.5
Dividend payout	120%
Shares o/s (Crs)	28.89

Relative Performance	1Mth	3Mth	1Yr
Maruti	-14.8%	-18.7%	-12.3%
Sensex	-12.0%	-11.6%	10.9%


**Shareholding Pattern as of 30/09/2010**

Promoters Holding	54.21%
Institutional (Incl. FII)	38.00%
Corporate Bodies	5.26%
Public & others	2.53%

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**Results Below Expectations**

Maruti Suzuki India's net profit for Q3 FY11 declined largely on account of weak operating performance. Unfavourable forex movement and higher commodity prices pulled down the margins.

**Key Highlights**

- Maruti posted an 18% drop in Q3 FY11 profit as a stronger yen, higher royalty payments and increased raw material prices damped gains from record sales.
- Maruti spent 27% more on steel, rubber and other materials in the quarter as rising economic growth in India and China boosted commodity prices
- Maruti sold 330687 vehicles in Q3FY11 compared to 313654 vehicles in Q2 FY11 reflecting an increase of 10.7% QoQ. Average Net Realization declined from Rs. 284935 in Q2 FY11 to Rs 280529 in Q3 FY 11.
- The company will operate with a capacity of 1.4 mn units in starting 1H FY11. Capacity will further increase in 2H FY11 once the expansion at Manaser plant is completed.
- 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.

**Valuation & Recommendation**

At the current price of Rs. 1218 per share, Maruti is currently available at 15.55x FY11E and 12.43x FY12E. Using our intrinsic value method, we arrive at a target price of Rs. 1425 per share for Maruti. Therefore, we maintain HOLD with a target price of Rs.1425 per share indicating potential upside of 17%.

Year	Net Sales	Growth %	EBITDA	Margin %	PAT	Margin	EPS	P/E	P/BV
FY 2009	20557.9	14.08%	1867.5	9.08%	1227.4	5.97%	42.47	28.68	3.68
FY 2010	29302.8	42.54%	4043.3	13.80%	2624.6	8.96%	90.82	13.41	2.89
FY 2011E	36377.0	24.14%	3684.0	10.13%	2263.5	6.22%	78.32	15.55	2.47
FY 2012E	42932.0	18.02%	4665.6	10.87%	2832.6	6.60%	98.01	12.43	2.07

**Performance Analysis**

- The company's reported net sales increased 29% to Rs. 1032.8 Crs Y-oY on the back of strong volume growth during the period. Total units grew 5% QoQ to 330687 units in Q3 FY11.
- EBIDTA for Q3FY11 were Rs. 901.8 Crs as compared to Rs. 960.3 Crs in Q2FY11. EBITDA margins reduced from 10.7% Vs 9.7% Q-o-Q. The pressure on margins were mainly due to increase in raw material cost and appreciation of Yen again Rupee in Q3 FY11.
- PAT stood at Rs 565.2 Crs, down by 5.5% Q-o-Q.. PAT margin declined 328 bps YoY to 9.4% in Q3 FY11.
- Maruti reported EPS of Rs 19.56 in Q3 FY 2011 compared to Rs 16.11 in Q3 FY10.

**Quarterly Results (In Crs Rs.)**

	Q3 FY11	Q2 FY11	QoQ[%]	Q3 FY10	YoY[%]
Gross Sales	10,383	9,987	4.0%	8,046	29.0%
Excise Duty	1,106	1,050	5.4%	713	55.2%
<b>Net Sales</b>	<b>9,277</b>	<b>8,937</b>	<b>3.8%</b>	<b>7,334</b>	<b>26.5%</b>
Other operating Income	218	210	3.6%	169	28.8%
Total Income	9,495	9,147	3.8%	7,503	26.5%
Raw Material Consumed	6,959	6,939	0.3%	5,492	26.7%
Stock Adjustment	150	(148)	(201.0%)	(131)	N/A
Purchase of Finished Goods	337	285	18.2%	229	46.8%
Employee Expenses	232	157	48.2%	132	75.5%
Other Expenses	915	955	(4.2%)	646	41.5%
<b>TOTAL EXPENDITURE</b>	<b>8,593</b>	<b>8,187</b>	<b>5.0%</b>	<b>6,369</b>	<b>34.9%</b>
<b>EBITDA</b>	<b>902</b>	<b>960</b>	<b>(6.1%)</b>	<b>1,134</b>	<b>(20.5%)</b>
	9.7%	10.7%	(102) bps	15.5%	(574) bps
Depreciation	237	238	(0.5%)	203	16.8%
<b>EBIT</b>	<b>665</b>	<b>722</b>	<b>(7.9%)</b>	<b>931</b>	<b>(28.6%)</b>
Other Income	128	134	(4.3%)	91	40.6%
Interest	0.4	10	(96.3%)	8	(95.7%)
PBDT	793	846	(6.3%)	1,014	(21.8%)
Tax	228	248	(8.3%)	326	(30.3%)
<b>Profit After Tax</b>	<b>565</b>	<b>598</b>	<b>(5.5%)</b>	<b>688</b>	<b>(17.8%)</b>
	6.1%	6.7%	(60) bps	9.4%	(328) bps
<b>EPS (Unit Curr.)</b>	<b>19.56</b>	<b>20.71</b>	<b>(5.6%)</b>	<b>16.11</b>	<b>21.4%</b>

## Volumes Continued to witness strong growth YoY

Product	Q3 FY11	Q3 FY10	YoY	Q2 FY11	QoQ
Domestic Sales					
A1 (Maruti 800)	6,869	8,738	-21.4%	5,207	31.9%
A2(Alto,wagonR,Zen,Swift,Ritz)	216,057	159,678	35.3%	198,953	8.6%
A3 (SX4, Swift Dzire)	32,098	25,388	26.4%	31,362	2.3%
C (Omni,Versa,Eeco)	43,612	24,426	78.5%	41,596	4.8%
MUV (Gypsy, Vitara)	891	680	31.0%	818	8.9%
Total Domestic Sales	299,527	218,910	36.8%	277,936	7.8%
Export Sales	31,160	39,116	-20.3%	35,718	-12.8%
Total Sales (a+b)	330687	258026	28.2%	313654	5.4%

Source: Company, Nirmal Bang Research

- Sales of A1 category, comprising of Maruti 800, declined 21.4% YoY but showed a QoQ growth of 31.9%.
- The A2 segment comprising of Alto, Wagon R, Zen, Swift, A-Star and Ritz showed a strong growth of 35.3% YoY and by 8.6% QoQ.
- The A3 segment comprising of SX4 & Swift Dzire witnessed a growth of 26.4% on YoY basis and continues to lure higher middle class people.
- The C segment comprising of Omni, Versa & Eeco witnessed growth of 31% on YoY basis.
- Exports declined by 12.8% on a YoY basis and 20.3% QoQ to 31160 units.

### Outlook

The demand continues to remain firm. The company is expanding its production capacity at Manesar and Gurgaon and take the total capacity to 1.75 mn units by FY 2012-13 from current capacity of 1.2 mn. Therefore, we expect the company to post strong growth going forward. However, margins remain a concern with increasing raw material prices.

Indian steelmakers including Tata Steel Ltd., Steel Authority of India Ltd. and JSW Steel Ltd. raised prices by about 13% in the last quarter amid rising demand. And hence Maruti spent 27% more on steel, rubber and other materials in the quarter as rising economic growth in India and China boosted commodity prices. In December 2009, the Indian government lifted restrictions on the payments that can be made to overseas partners, allowing companies such as Suzuki Motor Corp. to charge higher royalty fees from their Indian subsidiaries. The Japanese yen strengthened 2.3% against the Indian rupee in the period. These factors are expected to continue to put pressure on the company's margins.

#### Valuation & Recommendation

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**Q3 FY11 Results Update**
**Maruti Suzuki India Ltd**
**Financials**

Profitability (Rs. In Cr)	FY09A	FY10A	FY11E	FY12E	Financial Health (Rs. In Cr)	FY09A	FY10A	FY11E	FY12E
Net Sales	20,558	29,303	36,377	42,932	Share Capital	145	145	145	145
Other op income	614	820	738	777	Reserves & Surplus	9,421	12,038	14,121	16,827
Total Income	21,172	30,123	37,115	43,709	Deferred Tax Liabilities	160	146	146	146
EBITDA	1,867	4,043	3,684	4,666	Share Holder's Funds	9,725	12,329	14,411	17,117
Dep	716	841	952	1,143	Total Loans	759	906	686	656
Op Income	1,151	3,202	2,732	3,523	<b>Total Liabilities</b>	<b>10,484</b>	<b>13,234</b>	<b>15,097</b>	<b>17,773</b>
Interest	55	37	24	29	Net Fixed Assets	5,084	5,564	6,419	8,377
Other Income	609	502	502	553	Investments	3,277	7,397	7,397	7,397
PBT	1,705	3,667	3,211	4,047	Sundry Debtors	960	849	1,446	1,699
Tax	474	1,122	947	1,214	Cash & Bank	1,987	163	786	1,109
PAT	1,232	2,545	2,263	2,833	Loans & Advances & Others	1,754	1,684	2,101	2,453
Minority Interest	-4	80	0	0	Inventories	921	1,228	1,668	1,960
Adj PAT	1,227	2,625	2,263	2,833	Total	5,622	3,923	6,001	7,221
Shares o/s ( No. in Cr.)	29	29	29	29	Current Liabilities & Provisor	3,499	3,649	4,720	5,221
EPS	43	88	78	98	Net Current Assets	2,123	274	1,281	2,000
Adj EPS	42	91	78	98	Deferred Tax Assets	0	0	0	0
Cash EPS	67	120	111	138	<b>Total Assets</b>	<b>10,484</b>	<b>13,234</b>	<b>15,097</b>	<b>17,773</b>
Quarterly (Rs. In Cr)	Mar.10	Jun.10	Sep.10	Dec.10	Cash Flow (Rs. In Cr)	FY09A	FY10E	FY11E	FY12E
Net Sales	8,235	8,051	8,937	9,277	Operating				
EBITDA	1,111	793	960	902	Net Income	1,705	3,667	3,211	4,047
Dep	223	242	238	237	Change in WC	(56)	(151)	(384)	(395)
Op Income	888	551	722	665	Other Adjustment	(391)	(504)	(709)	(819)
Interest	13	8	10	0.4	CF from Opeartion	1,259	3,012	2,117	2,832
Other Inc.	13	8	10	0.4	Investment				
Extraordinary	0.0	0.0	0.0	1.0	Capex	(1,699)	(1,331)	(1,808)	(3,000)
PBT	954	643	846	793	Other Investment & interest	2,556	(3,581)	738	777
Tax	298	178	248	228	Total Investment	857	(4,912)	(1,070)	(2,223)
PAT	657	465	598	565	Financing				
EPS (Rs.)	22.7	16.1	20.7	19.6	Dividend Paid	(144)	(101)	(181)	(227)
Performance Ratio	FY09A	FY10E	FY11E	FY12E	Share Capital	0	0	0	0
Sales growth (%)	14.1%	42.5%	24.1%	18.0%	Debt Repayment & Int	(375)	177	(243)	(59)
EBITDA margin (%)	8.8%	13.4%	9.9%	10.7%	Total Financing	(519)	76	(424)	(285)
Adj.PAT margin (%)	5.8%	8.7%	6.1%	6.5%	Net Chg. in Cash	1,597	(1,824)	623	323
ROE (%)	13.5%	24.1%	17.1%	18.1%	Cash at beginning	390	1,987	163	786
ROCE (%)	18.8%	34.5%	19.5%	21.6%	Cash at end	1,987	163	786	1,109
Valuation Ratio	FY09A	FY10E	FY11E	FY12E	Per Share Data	FY09A	FY10E	FY11E	FY12E
Price Earnings (x)	28.68	13.41	15.55	12.43	Reported EPS	42.62	88.06	78.32	98.01
Price / Book Value (x)	3.68	2.89	2.47	2.07	Adjusted EPS	42.47	90.82	78.32	98.01
EV / Sales	1.66	1.22	0.99	0.83	BV per share	331.0	421.5	493.6	587.2
EV / EBITDA	18.29	8.87	9.73	7.67	Cash per share	68.8	5.6	27.2	38.4
Dividend Yield	0.4%	0.5%	0.6%	0.6%	Dividend per share	5.00	6.00	7.00	7.00

NOTE

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