

Q1 FY12 Results Update

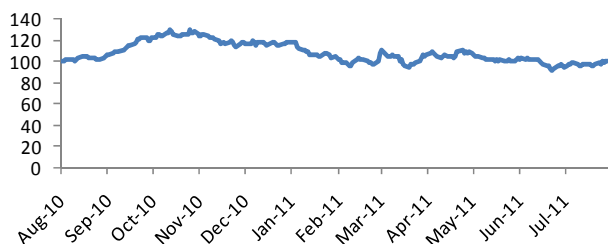
Maruti Suzuki India Ltd

Recommendation	HOLD
CMP (02/08/2011)	Rs. 1,215
Target	Rs 1,287
Sector	Auto

Stock Details

BSE Code	532500
NSE Code	MARUTI
Bloomberg Code	MSIL IN
Market Cap (Rs. Crs)	34,856.75
Free Float (%)	45.59%
52- wk HI/Lo	1,599.9/1,087.15
Avg. volume BSE (Quarterly)	50594
Face Value	Rs.5
Dividend payout	150%
Shares o/s (Crs)	28.9

Relative Performance	1Mth	3Mth	1Yr
Maruti	5.1%	-11.2%	-1.1%
Sensex	1.5%	-5.4%	2.8%



Shareholding Pattern as of 30/06/2011

Promoters Holding	54.21%
Institutional (Incl. FII)	36.71%
Corporate Bodies	6.31%
Public & others	2.77%

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Results broadly in line with estimates

Maruti Suzuki posted bleak performance for Q1FY12 on account of worker's strike and plant maintenance shut down in the month of June. However it was supported by higher other income which helped the company to post a strong bottom-line above expectations.

Key Highlights

- Total volumes were down 18% QoQ and 1% YoY to 281526 units in Q1FY12 with domestic volumes increasing by 3.3% YoY and declined 19.8% QoQ to 250,683.
- Maruti Suzuki reported net Sales of Rs 8,320 crs, up 3.3% on YoY basis while it declined by 15.7% on a QoQ basis.
- PAT grew by 18.1% YoY but reduced 16.8% QoQ to Rs. 549.2 crs as against Rs. 465.4 crs in Q1FY11 and Rs. 659.9 crs in Q4FY11
- EBITDA margins were hit on account of higher commodity prices, increased fuel prices and interest rates and the strike at Manesar and reduced by 5 bps YoY and 45 bps QoQ to 9.79%
- Exports continue to show their lackluster performance with sales dropping to 30,843 units in Q1FY12 Vs 40,437 units in Q1FY11 which is a drop of 24% YoY.
- Management has given a guidance of capex of Rs. 4,000 crs in FY12E and Rs. 3,000 crs for FY13E

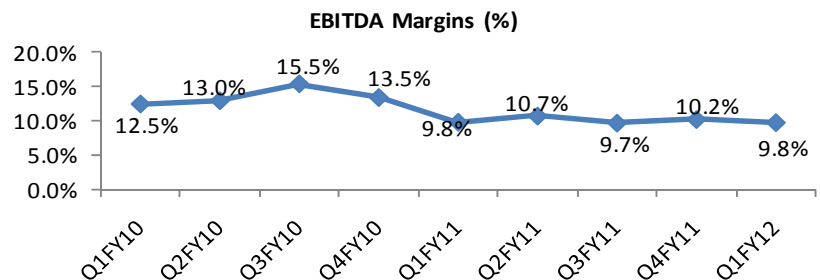
Valuation & Recommendation

Going forward, the auto sector is likely to get impacted on account of lower volume growth and increasing cost of production. At the CMP of Rs 1,215 Maruti is trading at 14.15x and 13.61x FY2012E & FY2013E EPS of Rs 86 and Rs 89 respectively. **We have a Neutral view on the stock with a fair value of Rs 1,287 per share.**

Year	Net Sales	Growth %	EBITDA	Margin %	PAT	Margin	EPS	P/E	P/BV
FY 2010	28,958	40.9%	3,951	13.6%	2,498	8.62%	86.4	14.06	2.97
FY 2011	36,128	24.8%	3,664	10.1%	2,289	6.34%	79.2	15.34	2.53
FY 2012E	39,319	8.8%	4,070	10.4%	2,482	6.31%	85.9	14.15	2.18
FY 2013E	43,585	10.8%	4,462	10.2%	2,581	5.92%	89.3	13.61	1.91

Performance Analysis

- Maruti Suzuki sales were broadly in line with estimates. Maruti Suzuki reported net Sales at Rs 8,320 crs which was up 3.3% on YoY basis while declined by 15.7% on a QoQ basis.
- The company's production at Manesar plant was shut down for ~11 days due to the strike and maintenance shutdown. Consequently, volumes were down 18% QoQ and 1% YoY to 281526 units in Q1FY12. However, Average realisation was up 3% YoY.
- Maruti's EBITDA was up 2.8% yoy reflecting the growth at top-line level. Employee expenses of the company increased significantly by 11.4% YoY and 16.9% QoQ to Rs 179 crs. Margins also remained flat at 9.8% YoY. Despite the increase in raw material costs from 77.1% of revenues in Q1FY11 to 78.5% in 1QFY12, the company managed to protect its margins by reducing other expenses by 10.8% yoy. On a QoQ basis EBITDA margin fell 40bps.



- Maruti reported other income of Rs 180 crs as compared to Rs 100 crs in Q1FY11 and Rs 120cr in Q4FY11. This growth led to an 18.1% YoY growth in PAT to Rs 549 crs. Consequently, PAT margin increased by 82 bps. However, on a qoq basis PAT declined by 16.8%. Moreover, if we consider PAT after adjusting it for other income it was lower than expectations.
- Maruti reported EPS of Rs 19.01 in Q1 FY12 compared to Rs 16.11 in Q1 FY11.

Q1 FY12 Results Update

Maruti Suzuki India Ltd

Q1 FY12 results (Rs In Crs)

	1QFY12	1QFY11	% yoy	4QFY11	% qoq
Gross Sales	9,301	8,980	3.6	11,069	(16.0)
Excise Duty	981	930	5.5	1,205	(18.6)
Net Sales	8,320	8,051	3.3	9,864	(15.7)
Other operating Income	209	259	(19.0)	228	(8.3)
Total Income	8,529	8,309	2.6	10,092	(15.5)
Raw Material Consumed	6,692	6,410	4.4	7,863	(14.9)
Employee Expenses	179	161	11.4	153	16.9
Other Expenses	844	946	(10.8)	1,066	(20.9)
TOTAL EXPENDITURE	7,715	7,517	2.6	9,082	(15.1)
EBITDA	814	792	2.8	1,010	(19.3)
Margin (%)	9.79	9.84	(5) bps	10.24	(45) bps
Depreciation	242	242	0.3	297	(18.3)
EBIT	572	551	3.9	713	(19.8)
Other Income	180	100	79.7	120	50.2
Interest	5.8	8	(27.9)	6	(9.4)
PBDT	746	643	16.1	827	(9.7)
Tax	197	178	10.9	167	18.2
Profit After Tax	549	465	18.1	660	(16.8)
Margin (%)	6.6	5.8	82 bps	6.7	(9) bps
EPS (Unit Curr.)	19.01	16.11	18.0	22.84	(16.8)

Source: Company, Nirmal Bang Research

Volumes hit due to worker's strike

Product	Q1FY12	Q1FY11	YoY	Q4FY11	QoQ
Domestic Sales					
A1 (Maruti 800)	6,613	6906	(4.2%)	7,503	(11.9%)
A2 (Alto, WagonR, Zen, Swift, Ritz)	171,090	170513	0.3%	223,029	(23.3%)
A3 (SX4, Swift Dzire)	30,612	28958	5.7%	38,854	(21.2%)
A4	117	0	NA	138	(15.2%)
C (Omni, Versa, Eeco)	40,749	33521	21.6%	41,897	(2.7%)
MUV (Gypsy, Vitara)	1,502	2989	(49.7%)	968	55.2%
Total Domestic Sales	250,683	242,887	3.2%	312,389	(19.8%)
Export Sales	30,843	40437	(23.7%)	30,951	(0.3%)
Total Sales (a+b)	281,526	283,324	(0.6%)	343,340	(18.0%)

Source: Company, Nirmal Bang Research

- Sales of A1 category, comprising of Maruti 800, declined 4.0% YoY and 11.9% QoQ in Q1FY12.
- The A2 segment comprising of Alto, Wagon R, Zen, Swift, A-Star and Ritz showed a marginal growth of 0.3% YoY but decline by 23.3% QoQ in Q1FY12.

- The A3 segment comprising of SX4 & Swift Dzire witnessed a growth of 5.7% on YoY basis. However, it dropped by 21.2% on QoQ basis on account of workers strike at its Manesar plant which hurt production of its SX4 and Swift D'zire Sedan for almost 13 days. The company also planned a maintenance shutdown at its Gurgaon plant for six days during the month of June.
- The C segment comprising of Omni, Versa & Eeco witnessed growth of 29% on YoY basis in Q4FY11.
- Exports have been showing a declining trend for several quarters after European countries ended the scrappage incentive scheme.

Key highlights of concall:

Capacity expansion plans:

Maruti is expecting an increase in demand for its vehicles as its second plant at Manesar facility will be operational from September 2011. Consequently, the company's installed capacity will increase to 1.65 mn units per annum. The third plant is expected to be operational by FY13E which will take the overall production to 1.8 mn units per annum. We believe that the expansion in capacity will enable the company to cater to demand in the festive season.

Capex guidance:

Maruti has given a guidance of capex of Rs. 4,000 Cr. in FY12E and Rs. 3,000 Cr. for FY13E. Management indicated that the amount will be utilized for product development, R&D, expansion of facilities and setting up new ones.

Diesel car variant:

The petrol prices have also moved up noticeably over the last one year forcing the customers to consider more fuel efficient cars. As a result the company is expanding its presence into diesel powered cars looking at the increasing demand for diesel variant cars (SX4, Swift, Desire).

Consequently, diesel cars as a % of total domestic sales increased to 21% in Q1FY12 as compared to 19% in Q4FY11. Maruti has expanded its diesel engine manufacturing capacity to 2.5 lakh units per annum and plans to further increase capacity to 2.9 lakh units per annum by end of 2012. However, we believe that capacity expansion plans will take some time to materialize and will not add immediately to the company's margins.

Launch of refreshed version of Swift

The company will launch the refreshed version of the Swift in coming August for which the company expects initial bookings of approximately 30,000 units and further expects sales to touch figures of 7,000-8,000 units per month.

Higher inventory levels:

As per the management, the inventory level of the cars is at 4-5 weeks while the normal inventory levels are generally in the range of 3-4 weeks. This indicates a slight concern that the company is not being able to channelise on its sales as there is slowdown in the demand for cars as customer have postponed buying of new vehicles due to monsoons and higher interest rates.

Outlook

Maruti's result were broadly in line with expectations. The company is currently facing the heat on moderating growth and increasing competition. We expect growth rate to remain muted at 7.7% in FY12 as the increase in interest rate continues, with the recent rate increase of 50 bps posing further downside risk.

The outlook remains weak given the increasing interest rate scenario which is expected to impact the demand for automobiles. Moreover, the company has been facing stiff competition from its peers. A series of launches by Toyota, Hyundai, Volkswagen, Ford, etc has increased competitive intensity in the compact cars and mid-sized sedans.

Going forward, the auto sector is likely to get impacted on account of lower volume growth and increasing cost of production. However, the company is banking on the upcoming festive season with attractive discount schemes. We believe that the EBITDA margins will remain at current levels as the cost benefits will be offset by the lower realization prices as the company will have to spend more on discounts in the festive season.

Using our intrinsic value method, we arrive at a target price of Rs. 1,287 per share for Maruti. At the CMP of Rs 1,206 Maruti is trading at 14.15x and 13.61x FY2012E & FY2013E EPS of Rs 86 and Rs 89 respectively. **We have a Neutral view on the stock with a fair value of Rs 1,287 per share.**

Q1 FY12 Results Update
Maruti Suzuki India Ltd
Financials

Profitability (Rs. In Cr)					Financial Health (Rs. In Cr)				
	FY10A	FY11A	FY12E	FY13E		FY10A	FY11A	FY12E	FY13E
Net Sales	28,958	36,128	39,319	43,585	Share Capital	145	145	145	145
Other op income	665	912	953	1,001	Reserves & Surplus	11,691	13,723	15,935	18,228
Total Income	29,623	37,040	40,272	44,585	Deferred Tax Liabilities	137	164	164	164
EBITDA	3,951	3,664	4,070	4,462	Share Holder's Funds	11,972	14,032	16,244	18,537
Dep	825	1,013	1,229	1,462	Total Loans	821	309	620	620
Op Income	3,126	2,651	2,842	3,000	Total Liabilities	12,794	14,341	16,864	19,157
Interest	34	24	20	27	Net Fixed Assets	5,412	6,958	8,729	9,767
Other Income	500	482	579	637	Investments	7,177	5,107	5,107	5,107
PBT	3,593	3,109	3,400	3,610	Sundry Debtors	810	893	1,556	1,725
Tax	1,095	820	918	1,029	Cash & Bank	98	2,509	2,856	3,935
PAT	2,498	2,289	2,482	2,581	Loans & Advances & Others	1,656	1,540	1,650	1,811
Minority Interest	0	0	0	0	Inventories	1,209	1,415	1,795	1,990
Adj PAT	2,498	2,289	2,482	2,581	Total	3,772	6,356	7,858	9,461
Shares o/s (No. in Cr.)	29	29	29	29	Current Liabilities & Provisi	3,568	4,080	4,830	5,178
EPS	86	79	86	89	Net Current Assets	205	2,277	3,028	4,283
Adj EPS	86	79	86	89	Deferred Tax Assets	0	0	0	0
Cash EPS	115	114	128	140	Total Assets	12,794	14,341	16,864	19,157
Quarterly (Rs. In Cr)					Cash Flow (Rs. In Cr)				
	Sep.10	Dec.10	Mar.11	June.11		FY10A	FY11A	FY12E	FY13E
Net Sales	8,937	9,277	9,864	8,320	Operating				
EBITDA	960	902	1,010	814	Net Income	3,593	3,109	3,400	3,610
Dep	238	237	297	242	Change in WC	(12)	421	(403)	(177)
Op Income	722	665	713	572	Other Adjustment	(693)	(759)	(622)	(540)
Interest	10	0.4	6.4	5.8	CF from Operation	2,887	2,771	2,375	2,892
Other Inc.	10	0.4	6.4	5.8	Investment				
Extraordinary	0.0	1.0	2.0	3.0	Capex	(1,315)	(2,547)	(3,000)	(2,500)
PBT	846	793	827	746	Other Investment & interest	(3,468)	2,572	953	1,001
Tax	248	228	167	197	Total Investment	(4,783)	25	(2,047)	(1,499)
PAT	598	565	660	549	Financing				
EPS (Rs.)	20.7	19.6	22.8	19.0	Dividend Paid	(101)	(237)	(271)	(287)
Performance Ratio					Share Capital				
	FY10A	FY11A	FY12E	FY13E		FY10A	FY11A	FY12E	FY13E
Sales growth (%)	42.2%	24.8%	8.8%	10.8%	Share Capital	0	0	0	0
EBITDA margin (%)	13.3%	9.9%	10.1%	10.0%	Debt Repayment & Int	156	(537)	291	(27)
Adj.PAT margin (%)	8.4%	6.2%	6.2%	5.8%	Total Financing	55	(773)	20	(314)
ROE (%)	23.3%	17.8%	16.6%	15.0%	Net Chg. in Cash	(1,841)	2,023	348	1,078
ROCE (%)	34.4%	27.3%	18.4%	16.8%	Cash at beginning	1,939	98	2,509	2,856
Valuation Ratio					Cash at end				
	FY10A	FY11A	FY12E	FY13E		FY10A	FY11A	FY12E	FY13E
Price Earnings (x)	14.06	15.34	14.15	13.61	Per Share Data				
Price / Book Value (x)	2.97	2.53	2.18	1.91	Reported EPS	86.42	79.21	85.89	89.30
EV / Sales	1.24	0.93	0.86	0.75	Adjusted EPS	86.42	79.21	85.89	89.30
EV / EBITDA	9.06	9.14	8.30	7.37	BV per share	409.5	479.8	556.4	635.7
Dividend Yield	0.5%	0.6%	0.7%	0.7%	Cash per share	3.4	86.8	98.9	136.2
					Dividend per share	6.00	7.50	8.00	8.00

Source:Company data, Nirmal Bang Research

NOTE

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