

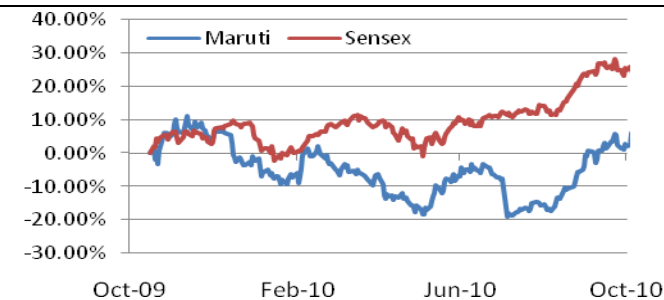
Q2 FY11 Results Update
Maruti Suzuki India Ltd

Recommendation	HOLD
CMP (08/11/2010)	Rs. 1514
Sector	Auto

Stock Details

BSE Code	532500
NSE Code	MARUTI
Bloomberg Code	MSIL IN
Market Cap (Rs. Crs)	43,739
Free Float (%)	50
52- wk HI/Lo	1657/1171
Avg. volume BSE (Quarterly)	85,181
Face Value	Rs.5
Dividend payout	190%
Shares o/s (Crs)	28.89

Relative Performance	1Mth	3Mth	1Yr
Maruti	-0.16%	23.48%	2.73%
Sensex	2.25%	15.58%	30.00%


Shareholding Pattern as of 30/09/2010

Promoters Holding	54.2%
Institutional (Incl. FII)	37.1%
Corporate Bodies	6.0%
Public & others	2.7%

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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	35.65	4.57
FY 2010	29302.8	42.54%	4043.3	13.80%	2624.6	8.96%	90.82	16.67	3.59
FY 2011E	34654.6	18.26%	3859.4	11.14%	2311.0	6.67%	79.96	18.93	3.06
FY 2012E	39176.4	13.05%	4543.6	11.60%	2687.6	6.86%	93.00	16.28	2.59

Snapshot

Maruti Suzuki India Limited (Maruti), a subsidiary of Suzuki Motor Corporation of Japan, is the leader in the Indian car market with around 50% market share. The company has State-of-the-art Manufacturing Facilities at Gurgaon located some 25 km south of New Delhi. Maruti Suzuki has a sales network of 802 state-of-the-art showrooms across 555 cities, with a workforce of over 15000 trained sales personnel.

Key Highlights

- Revenues were in line with our expectations growing 11% on a QoQ basis to Rs 8937 Crs in Q2 FY11.
- EBIDTA increased 21.2% on a QoQ basis to Rs 960 Crs on account of higher sales and better operational efficiency and lower royalty payment on a Q-Q basis. In Q1 FY11 Maruti payed an additional non-recurring royalty charge to the tune of 0.8% resulting in a dent of Rs 64 Crs.

Royalty as a % of Sales	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Royalty	3.6%	3.4%	5.17%	5.3%
Royalty –non recurring	-	-	0.8%	-
Total Royalty	3.6%	3.4%	5.9%	5.3%

- Maruti sold 313,654 vehicles in Q2FY11 compared to 283,324 vehicles in Q1 FY11 reflecting an increase of 10.7% QoQ. Average Net Realization increased from Rs. 284,151 in Q1 FY11 to Rs 284,935 in Q2 FY 11. The Realizations have remained strong for the Domestic sales; however saw a decline of around 7-8% on export realization on account of Depreciation of the Euro.

Valuation & Recommendation

The company is expanding its production capacity at Manesar and will 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. At the current price of Rs. 1514 per share, Maruti is currently available at 18.93x FY11E and 16.28x FY12E. We expect the company to record a ROCE of above 20%. Using our intrinsic value method, we arrive at a target price of Rs. 1612 per share for Maruti. Therefore, we maintain HOLD with a target price of Rs.1612 per share indicating potential upside of 6.5%.

Performance Analysis

- The company's reported net sales increased 26.8% to Rs. 8,937.1 Crs on the back of strong volume growth during the period. Total units grew 27.4% YoY to 313,654 units in Q2 FY11.
- EBIDTA for Q2FY11 were Rs. 960.3 Crs as compared to Rs. 916.1 Crs in Q2FY10. Despite strong YoY growth in Q2 FY11 at the top-line level, EBIDTA continued to remain flat due to increase in input costs and higher royalty expenses (affecting the Margins to the tune of 200bps). Consequently, Maruti's EBIDTA margin declined 225 bps YoY to 10.7% in Q2 FY11.
- PAT was up 5.0% YoY as per our expectations to Rs. 598.2 Crs. PAT margin declined 139 bps YoY to 6.7% in Q2 FY11. On a QoQ basis PAT margin improved 91 bps.
- Maruti reported EPS of Rs 20.71 in Q2 FY 2011 compared to Rs 19.73 in Q2 FY10.

Quarterly Results (In Crs Rs.)

	Q2 FY11	Q2 FY10	YoY[%]	Q1 FY11	QoQ[%]
Gross Sales	9986.9	7731.5	29.2%	8980.5	11.2%
Excise Duty	1049.8	681.9	53.9%	929.8	12.9%
Net Sales	8937.1	7049.6	26.8%	8050.7	11.0%
Other operating Income	210.2	153.0	37.3%	180.9	16.2%
Total Income	9147.3	7202.6	27.0%	8231.5	11.1%
Raw Material Consumed	6938.9	5254.9	32.0%	6079.7	14.1%
Stock Adjustment	-148.2	-15.4	863.0%	54.9	N/A
Purchase of Finished Goods	285.0	216.0	31.9%	275.6	3.4%
Employee Expenses	156.8	126.3	24.2%	161.0	-2.6%
Other Expenses	954.5	704.7	35.5%	867.8	10.0%
TOTAL EXPENDITURE	8187.0	6286.5	30.2%	7439.0	10.1%
EBITDA	960.3	916.1	4.8%	792.5	21.2%
	10.7%	13.0%	(225) bps	9.8%	90 bps
Depreciation	238.2	203.1	17.3%	241.7	-1.5%
EBIT	722.1	713.0	1.3%	550.8	31.1%
Other Income	134.0	110.0	21.8%	100.2	33.7%
Interest	9.7	6.0	62.8%	8.0	21.8%
PBDT	846.4	817.1	3.6%	643.0	31.6%
Tax	248.1	247.1	0.4%	177.7	39.7%
Profit After Tax	598.2	570.0	5.0%	465.4	28.6%
	6.7%	8.1%	(139) bps	5.8%	91 bps
EPS (Unit Curr.)	20.71	19.73	5.0%	16.11	28.6%

Volumes Continued to witness strong growth YoY

Product	Q2 FY11	Q2 FY10	YoY	Q1 FY11	QoQ
Domestic Sales					
A1 (Maruti 800)	5,207	8,737	-40.4%	6,906	-24.6%
A2(Alto,wagonR,Zen,Swift,Ritz)	198,953	153,096	30.0%	170,513	16.7%
A3 (SX4, Swift Dzire)	31,362	24,278	29.2%	28,958	8.3%
C (Omni,Versa,Eeco)	41,596	22,200	87.4%	33,521	24.1%
MUV (Gypsy, Vitara)	818	772	6.0%	2,989	-72.6%
Total Domestic Sales	277,936	209,083	32.9%	242,887	14.4%
Export Sales	35,718	37,105	-3.7%	40,437	-11.7%
Total Sales (a+b)	313,654	246,188	27.4%	283,324	10.7%

Source: Company, Nirmal Bang Research

- Sales of A1 category, comprising of Maruti 800, declined 40.4% YoY and 24.6% on a QoQ basis as the company continues to focus more on other segments.
- The A2 segment comprising of Alto, Wagon R, Zen, Swift, A-Star and Ritz showed a strong growth of 30% YoY and by 16.7% QoQ.
- The A3 segment comprising of SX4 & Swift Dzire witnessed a growth of 29.2% on YoY basis and continues to lure higher middle class people.
- The C segment comprising of Omni, Versa & Eeco witnessed growth of 87.4% on YoY basis.
- Exports declined by 3.7% on a YoY basis and 11% QoQ to 35,718 units.

Volumes to drive growth in Q3 FY11

We expect the volumes to continue to grow in Q3 FY11 with the festive season. We expect Maruti to sell little more than 1.20 million vehicles in FY2011 as compared to 1.02 million in FY 2010. Maruti has launched various variants of successful models in Q2 FY11 and has benefited the sales. We expect the company would deliver the highest sales in Q3 FY11 on account of strong festive demand. We expect the growth rate to moderate in FY 2012 due to capacity constraints and higher base effect and forecast a sale of around 1.34 million vehicles in FY2012.

Aggressive growth plans to benefit in the long term

Over the last couple of quarters we have seen strong growth in sales of Maruti Suzuki owing to the strong economic recovery and increase in spending by the consumers. We expect this upward trend to continue in near term on account of festive season. The sharp increase in demand led to a capacity shortfall and forced the OEM's to consider capacity expansion plans. Consequently, few months ago Maruti Suzuki announced an expansion at its Manesar plant by 250000 cars (Plant B) and expects the production to start by January 2012. Recently, in September 2010, Maruti Suzuki again announced to set up another plant at Manesar having capacity of 250000 cars (Plant C), taking the total capacity to 1.75 mn units. Plant C is expected to be operational by the end of FY 2012 or early FY 2013. These expansion

plans are expected to boost the company's top-line going forward. The company will incur a capex of more than Rs. 6000 Crs during next two and half years to meet its expansion plans which will impact the cash flows in near term. However, the company will reap good benefits on its investment once the production starts in FY 2012 and FY 2013.

Royalty continues to remain a concern

We feel the biggest point of contention from the last 2 quarters remains the increased payment of royalty to Suzuki Motors. Maruti's royalty payment to Suzuki Motors increased from an average 3.4-3.7% of sales in FY 2010 to 5.1% in Q1 FY11 (excluding a non-recurring payment) and to 5.3% of sales in Q2 FY11 following the Government's announcement of relaxing the restrictions on payment of royalty, which were earlier capped at 5% of Domestic & 8 % of Exports. This increase has continued to impact the company's margin significantly affecting the EBIDTA Margins close to 200bps.

Valuation & Recommendation

The company is expanding its production capacity at Manesar and will 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. At the current price of Rs. 1514 per share, Maruti is currently available at 18.93x FY11E and 16.28x FY12E. We expect the company to record a ROCE of above 20%. Using our intrinsic value method, we arrive at a target price of Rs. 1612 per share for Maruti. Therefore, we maintain HOLD with a target price of Rs.1612 per share indicating potential upside of 6.5%.

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Maruti Suzuki India Ltd
Financials

Profitability (Rs. In Cr)	FY09A	FY10A	FY11E	FY12E
Net Sales	20558	29303	34655	39176
Other op income	614	820	656	757
Total Income	21172	30123	35310	39933
EBITDA	1867	4043	3859	4544
Dep	716	841	998	1199
Op Income	1151	3202	2861	3344
Interest	55	37	37	30
Other Income	609	502	477	525
PBT	1705	3667	3301	3839
Tax	474	1122	990	1152
PAT	1232	2545	2311	2688
Minority Interest	-4.3	79.7	0.0	0.0
Adj PAT	1227	2625	2311	2688
Shares o/s (No. in Cr.)	28.9	28.9	28.9	28.9
EPS	42.6	88.1	80.0	93.0
Adj EPS	42.5	90.8	80.0	93.0
Cash EPS	67.3	119.9	114.5	134.5

Quarterly (Rs. In Cr)	Dec.09	Mar.10	Jun.10	Sep.10
Net Sales	7334	8235	8051	8937
EBITDA	1134	1111	793	960
Dep	203	223	242	238
Op Income	931	888	551	722
Interest	8	13	8	10
Other Inc.	8	13	8	10
Extraordinary	0	0	0	0
PBT	1014	954	643	846
Tax	326	298	178	248
PAT	688	657	465	598
EPS (Rs.)	23.8	22.7	16.1	20.7

Performance Ratio	FY09A	FY10E	FY11E	FY12E
Sales growth (%)	14.1%	42.5%	18.3%	13.0%
EBITDA margin (%)	8.8%	13.4%	10.9%	11.4%
Adj.PAT margin (%)	5.8%	8.7%	6.5%	6.7%
ROE (%)	13.5%	24.1%	17.4%	17.2%
ROCE (%)	18.8%	34.5%	20.3%	20.5%

Valuation Ratio	FY09A	FY10E	FY11E	FY12E
Price Earnings (x)	35.44	16.57	18.82	16.18
Price / Book Value (x)	4.55	3.57	3.04	2.58
EV / Sales	2.07	1.51	1.26	1.12
EV / EBIDTA	22.73	10.92	11.36	9.64
Dividend Yield	0.3%	0.4%	0.5%	0.5%

Financial Health (Rs. In Cr)	FY09A	FY10A	FY11E	FY12E
Share Capital	145	145	145	145
Reserves & Surplus	9421	12038	14164	16737
Deferred Tax Liabilities	160	146	146	146
Share Holder's Funds	9725	12329	14455	17027
Total Loans	759	906	736	656
Total Liabilities	10484	13234	15191	17684
Net Fixed Assets	5084	5564	6373	8274
Investments	3277	7397	7397	7397
Sundry Debtors	960	849	1371	1550
Cash & Bank	1987	163	1016	1219
Loans & Advances & Others	1754	1684	1997	2246
Inventories	921	1228	1582	1789
Total	5622	3923	5967	6804
Current Liabilities & Provisor	3499	3649	4546	4791
Net Current Assets	2123	274	1421	2013
Deferred Tax Assets	0	0	0	0
Total Assets	10484	13234	15191	17684

Cash Flow (Rs. In Cr)	FY09A	FY10E	FY11E	FY12E
Operating				
Net Income	1705	3667	3301	3839
Change in WC	-56	-151	-294	-389
Other Adjustment	-391	-504	-611	-679
CF from Opeartion	1259	3012	2397	2771
Investment				
Capex	-1699	-1331	-1808	-3000
Other Investment & interest	2556	-3581	656	757
Total Investment	857	-4912	-1152	-2243
Financing				
Diviend Paid	-144	-101	-185	-215
Share Capital	0	0	0	0
Debt Repayment & Int	-375	177	-206	-110
Total Financing	-519	76	-391	-325
Net Chg. in Cash	1597	-1824	853	203
Cash at beginning	390	1987	163	1016
Cash at end	1987	163	1016	1219

Per Share Data	FY09A	FY10E	FY11E	FY12E
Reported EPS	42.62	88.06	79.96	93.00
Adjusted EPS	42.47	90.82	79.96	93.00
BV per share	331.0	421.5	495.1	584.1
Cash per share	68.8	5.6	35.2	42.2
Dividend per share	5.00	6.00	7.00	7.00

NOTE

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