MARUTI SUZUKI INDIA LTD
RESEARCH

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RESULTS REVIEW

Share Data

Market Cap	Rs. 417.4 bn
Price	Rs. 1444.80
BSE Sensex	16,440.56
Reuters	MRTI.BO
Bloomberg	MSIL IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 1740.0 / 428.4
Shares Outstanding	288.9 mn

Valuation Ratios (Consolidated)

Year to 31 March	2010E	2011E
EPS (Rs.)	79.4	88.8
+/- (%)	86.9%	11.9%
PER (x)	18.2x	16.3x
EV/ Sales (x)	1.5x	1.3x
EV/ EBITDA (x)	11.4x	10.0x

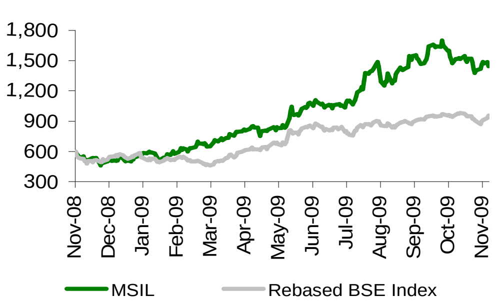
Shareholding Pattern (%)

Promoter	54
FIIs	22
Institutions	17
Public & Others	7

Holding >1% (Non-Promoter)

Life Insurance Corporation of	8.85
HSBC Global Investment Funds	4.26
ICICI Prudential Life Insurance Company Ltd	2.75
LIC of India Market Plus	1.48
LIC India Money Plus	1.34

Relative Performance



Maruti Suzuki India Limited — Hold

Stiff competition to dampen the growth story

In Q2'10, Maruti Suzuki India Limited (MSIL)'s net sales increased 46.7% yoy to Rs. 70.5 bn on account of increase in volumes and favorable product mix. The EBITDA margins improved 227 bps yoy to 13% primarily due to lower commodity prices. In the near-to-medium term, we expect MSIL's volume to grow at a slower pace than the industry due to stiff competition in the A2 segment which would also bring margins under pressure. In addition, the exports would also grow at a slower pace due to removal of scrappage scheme in European countries. Thus, we maintain Hold rating on the stock with a target price of Rs. 1461.

Domestic growth to get moderated: In coming quarters, we expect MSIL to continue to witness volume growth due to high semi-urban and rural market penetration, new launches, and availability of funds at low costs. However, we expect the pace to be slower than the market due to the competitive pressures faced by its A2 segment (which contributes ~70% to total volumes) from the small cars by foreign players (esp. Hyundai) and from the upcoming launch of Tata Nano. In Q2'10, MSIL's domestic volume grew by mere 6.3% sequentially as against the robust 12.5% volume growth in the Indian auto sector. Consequently, we expect MSIL would shed some market share but would continue to maintain its market dominance.

Export to grow at a slower pace: In Q2'10, MSIL exports increased 109.1% yoy to 37,105 units primarily due to the boost from the "scrappage" incentive scheme of Europe. In coming quarters, we expect the export's growth rate to mellow down as 11 European countries, except the UK, have recently removed their "scrappage" incentive scheme.

Pressure on margins: In coming quarters, the Company should face pressure on its margins with the recovery in the commodity prices and stiff competition in the A2 segment. Thus, we expect EBITDA margins for FY10 and FY11 to be 12.7% and 12.1%, respectively as against 13.2% in FY09.

Key Figures (Standalone)

Quarterly Data	Q2'09	Q1'10	Q2'10	YoY%	QoQ%	H1'09	H1'10	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	48,063	63,403	70,496	46.7%	11.2%	95,373	133,898	40.4%
Adj. EBITDA	5,157	9,209	9,161	77.6%	(0.5)%	9,972	18,370	84.2%
Adj. Net Profit	2,961	7,113	5,700	92.5%	(19.9)%	7,758	12,813	65.2%
Margins(%)								
EBITDA	10.7%	14.5%	13.0%	2.27%	(1.5)%	10.5%	13.7%	3.3%
NPM	6.2%	11.2%	8.1%	1.92%	(3.1)%	8.1%	9.6%	1.4%
Per Share Data (Rs.)								
Adj. EPS	10.2	24.6	19.7	92.5%	(19.9)%	26.8	44.3	65.2%

Result Highlights

In Q2'10, net sales increased 46.7% yoy to Rs. 70.5 bn on account of increase in volumes and favorable product mix. MSIL total sales volume grew by 29.7% yoy. The volumes have increased during the quarter due to the new launches, festive season, high semi-urban & rural market penetration, and availability of funds at low costs. However, the A2 segment, the key segment of the Company, grew by only 4.3% sequentially as against the overall domestic growth of 12.5% for the same period, owing to heavy competition in the segment.

Following were the key operating highlights for the quarter;

- MSIL's total sales volume grew by 29.9% yoy. The domestic volumes increased 21.8% yoy to 209,083 units and export volumes increased 109.1% yoy to 37,105 units.
- The net sales increased 46.7% yoy to Rs. 70.5 bn.
- The net realizations improved 12.9% to Rs. 286,349.
- The raw material cost percentage of net sales decreased 188 bps yoy to 77.4% mainly due to lower commodity prices, impact of stronger Yen, and continued focus on cost reduction.
- The staff cost percentage of net sales decreased 63 bps yoy to 1.8% in Q2'10.
- The EBITDA margins improved 227 bps yoy to 13% in Q2'10.
- The Company reported net profit of Rs. 5.7 bn in Q2'10 as against Rs. 2.9 bn in Q2'09.

Segment performance

- The A1 segment's volume decreased 28% yoy to 8,737 units. It contributed 4.2% to the total revenue.
- The A2 segment's volume increased 29.7% yoy to 153,096 units. It contributed 73.2% to the total revenue.
- The A3 segment's volume increased 28.8% yoy to 24,278 units. It contributed 11.6% to the total revenue.
- The C segment's volume increased 9.9% yoy to 22,200 units. It contributed 10.6% to the total revenue.
- The MUV segment's volume decreased 68.2% yoy to 772 units. It contributed 0.4% to the total revenue.

Key Figures (Consolidated)

Year to March	FY08	FY09	FY10E	FY11E	FY12E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY09-12E)
Net Sales	180,208	205,579	272,298	322,545	369,991	21.6%
Adj. EBITDA	27,837	18,675	36,007	40,925	44,728	33.8%
Adj. Net Profit	17,899	12,275	22,936	25,658	28,410	32.3%
Margins(%)						
EBITDA	15.4%	9.1%	13.2%	12.7%	12.1%	
NPM	9.9%	6.0%	8.4%	8.0%	7.7%	
Per Share Data (Rs.)						
Adj. EPS	62.0	42.5	79.4	88.8	98.3	32.3%
PER (x)	23.3x	34.0x	18.2x	16.3x	14.7x	

Valuation

We believe demand outlook for the auto industry remains strong in the near-to-medium term. However, we expect the MSIL would not be able to completely translate the growth in the industry to its own growth story owing to heavy competition in the A2 segment due to the launch of Tata Nano and other small cars by foreign players. Moreover, exports would also grow at a slower rate in coming quarters.

Our DCF valuation, assuming a 12.7% of WACC and a 5% of terminal growth rate, gives a target price (TP) of Rs. 1,461, which does not provide for any significant upside potential from the CMP of Rs. 1,444.8. Hence, we maintain our Hold rating on the stock.

Sensitivity of Our Fair Value Estimate

Terminal growth \ WACC%	11.6%	12.1%	**12.6%**	13.1%	13.6%
4.00%	1,555	1,459	1,374	1,298	1,230
4.50%	1,612	1,507	1,415	1,333	1,260
5.00%	1,678	1,562	**1,461**	1,373	1,294
5.50%	1,756	1,626	1,514	1,417	1,332
6.00%	1,846	1,700	1,575	1,468	1,375

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