Annual Report Analysis
Sector: Automobiles
BSE Sensex : 16,285

ANNUAL REPORT ANALYSIS

MARUTI SUZUKI INDIA

BUY
CMP Rs1,115
TP Rs1,594

In A Metamorphosis For Defending Its Turf

FY11 was a windfall year for Maruti Suzuki (MSIL) and the Indian auto industry as the 29% volume growth surpassed all expectations. However, despite the scorching growth, MSIL's margins contracted by 350bps to 9.9%. Firstly, the increased level of competition hampered the company's ability to take price hikes even as input costs hardened. Secondly, the rise in royalty by ~200bps had a significant impact on margins. Consequently net profit growth of 9.7% was significantly lower than the volume growth.

FY11 marketshare stable: After losing ~190bps marketshare in FY10, MSIL bounced back by clawing back 30bps marketshare in FY11. MSIL with a domestic volume growth of 30.1% marginally outperformed the industry growth of 29.2%. New product launches such as Alto K10, Eeco and the new WagonR aided the growth. The Swift and Dzire too witnessed a 20% plus growth during the year.

Margins under pressure: The competitive intensity in the passenger car industry was significantly up during the year. New launches were primarily targeted at the premium hatchback and entry level sedan segments both of which are a forte of MSIL. In a rising input cost scenario, MSIL preferred market share over profitability. The increase of royalty by 200bps further dented the margins with contraction of 350bps in OPM to 9.9% in FY11.

Significant capacity addition at Manesar: Against an installed capacity of 1.2mn units, MSIL achieved a production of 1.27mn units. Capacity constraints impacted company's ability in meeting the demand during H1FY11. However, through productivity improvements and flexible assembly lines it managed to improve output during H2. MSIL is in the process of adding a 250k assembly line at Manesar in Sep'11 followed by a similar line by Q1FY13.

Outlook: The passenger vehicle market sentiment has significantly deteriorated since the beginning of FY12 owing to the fuel price increases and interest rate hikes. MSIL being a dominant player in the lower end of the car segment, which is more sensitive to these pressures, is bound to bear a higher impact due to demand slowdown. We maintain a single digit growth estimate of 8% for FY12. We believe margins have bottomed out in FY11 and will continue in this range in the near term due to low growth and competitive pressures. We expect earnings of Rs86.9 and Rs106.3 for FY12 and FY13 respectively.

VALUATIONS AND RECOMMENDATION

The stock is trading at attractive valuations of 10.7x its FY13E earnings. The competitive landscape and increased royalty were the major overhangs on the stock. MSIL has shown significant resilience in maintaining marketshare despite the slew of launches from the competition. Its strong product portfolio, distribution reach and rural connect have helped it achieve this feat. We maintain a 'BUY' recommendation on the stock with a target price of Rs1,594 discounting FY13E earnings 15x.

KEY FINANCIALS

Rs mn

	FY09	FY10	FY11	FY12E	FY13E
Net Revenue	203,583	289,585	361,282	403,992	479,449
YoY Gr.(%)	*14.0*	*42.2*	*24.8*	*11.8*	*18.7*
EBITDA	18,445	39,651	36,781	40,476	48,806
EBITDA Marg.(%)	*8.9*	*13.4*	*9.9*	*9.8*	*9.9*
Adjusted Net Profit	12,187	24,976	22,886	25,102	30,705
YoY Gr.(%)	*(29.6)*	*104.9*	*(8.4)*	*9.7*	*22.3*
KEY RATIOS					
Dil. EPS (Rs)	42.2	86.4	79.2	86.9	106.3
ROCE (%)	17.4	31.3	22.9	22.2	23.4
RoE (%)	13.7	23.6	17.8	16.8	17.6
PER (x)	27.0	13.2	14.4	13.1	10.7
EV/Net sales (x)	1.4	0.9	0.7	0.7	0.5
EV/EBITDA (x)	15.7	6.8	7.1	6.5	5.1

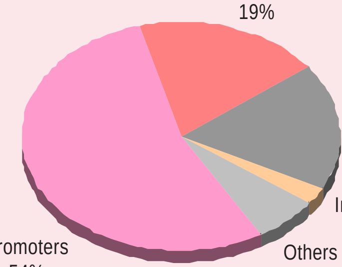
24 August 2011

Vineet Hetamasaria, CFA +91-22-6618 6388
vineet.hetamasaria@pinc.co.in

Nikhil Deshpande +91-22-6618 6339
nikhil.deshpande@pinc.co.in

Tasmai Anil Merchant +91-22-6618 6377
tasmai.merchant@pinc.co.in

SHAREHOLDING PATTERN



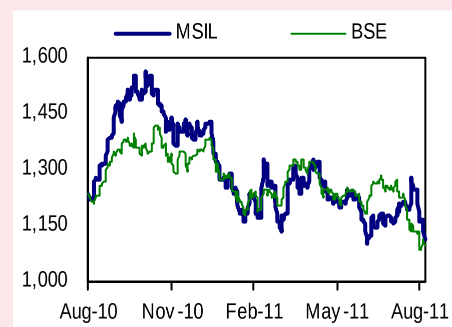
STOCK DATA

Market Cap	Rs329.7bn
Book Value per share	Rs480
Eq Shares O/S (F.V. Rs5)	289mn
Free Float	45.8%
Avg Traded Value (6 mnths)	Rs502mn
52 week High/Low	Rs1600/1087
Bloomberg Code	MSIL IN
Reuters Code	MRTI.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(4.0)	(7.1)	(9.6)
Relative	9.0	1.6	1.4

RELATIVE PERFORMANCE

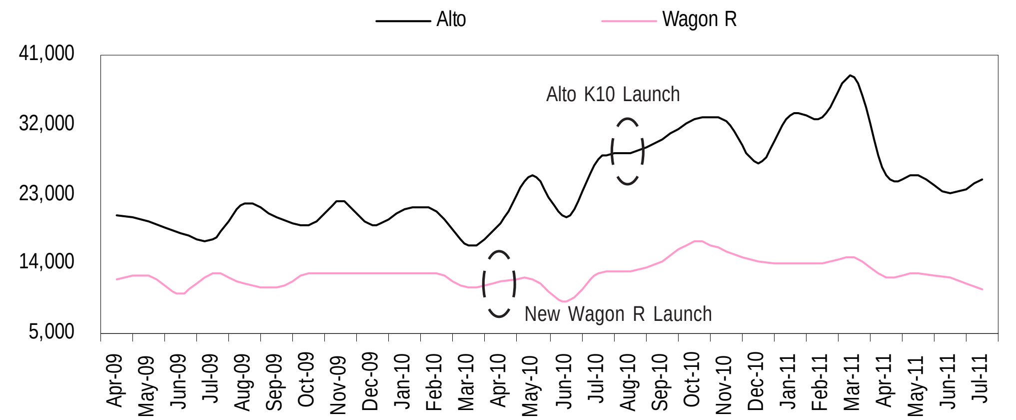


Strong domestic sales

Domestic sales during the year were up an impressive 30% to 1.1mn units exceeding the 29% growth in the domestic passenger vehicle industry. MSIL's marketshare expanded 30bps during the year inspite of the heightened level of competition in the industry.

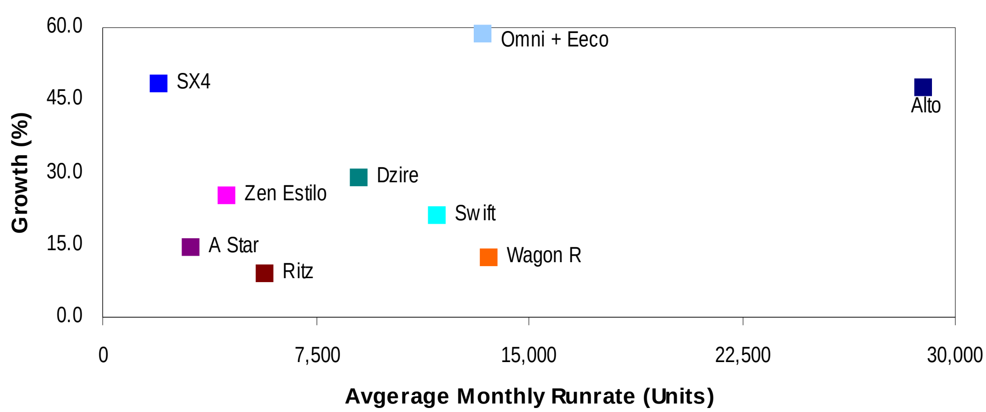
MSIL's volume growth was largely contributed by the success of new launches Alto K10 and Eeco. Alto volumes were up 47.5% YoY to 347k units and contributed 30% of the total domestic volumes. The MPV, Eeco, launched in the Q4FY10 generated an incremental volume of 68k units. WagonR, which was re-launched during the year, grew 12.5% to 163k units. Swift and Dzire maintained their impressive performance with a growth of 21.3% and 29.1% respectively.

Alto & WagonR Monthly Sales



Source: Crisil Research, PINC Research

Modelwise Performance



Source: Crisil Research, PINC Research

Sales Network

The wide spread sales network has been MSIL's forte in maintaining the tag of largest player in the Indian market. The company has consistently rolled out dealerships in newer geographies so as to increase its reach. The reach alongwith suitable products helped the company target the rural segment. During FY11, MSIL added 131 outlets to its network and in the process increased geographical coverage to 668 cities/towns in India. The company also added 167 outlets to its service network taking the total number of outlets to 2,946.

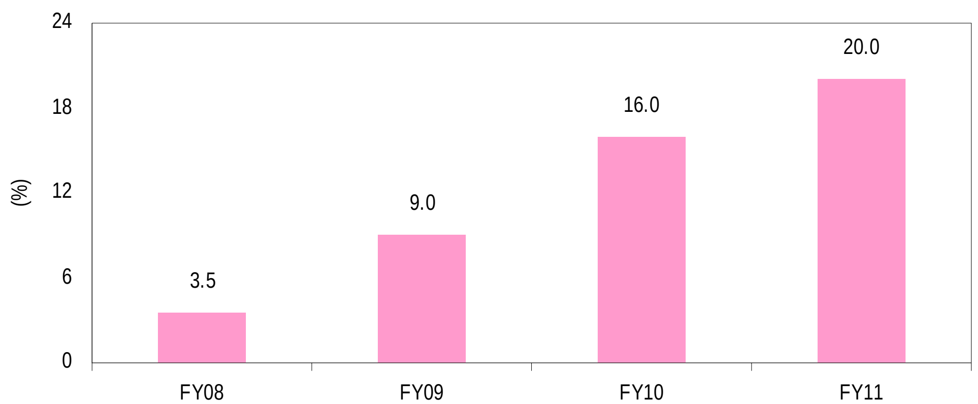
Distribution Reach

Source: Company, PINC Research

Rural

Rural India has been a beneficiary of several government schemes as well as the significant rise in minimum support price (MSP) for major crops. Additionally, increase in incomes from non agricultural activities has had a positive impact on the rural economy. MSIL has put in a special emphasis in tapping demand in the rural segment. The wide spread sales and service network have backed these initiatives leading to increase in rural contribution to domestic sales from 3.5% in FY08 to 20% in FY11.

Rural Contribution to Domestic Sales

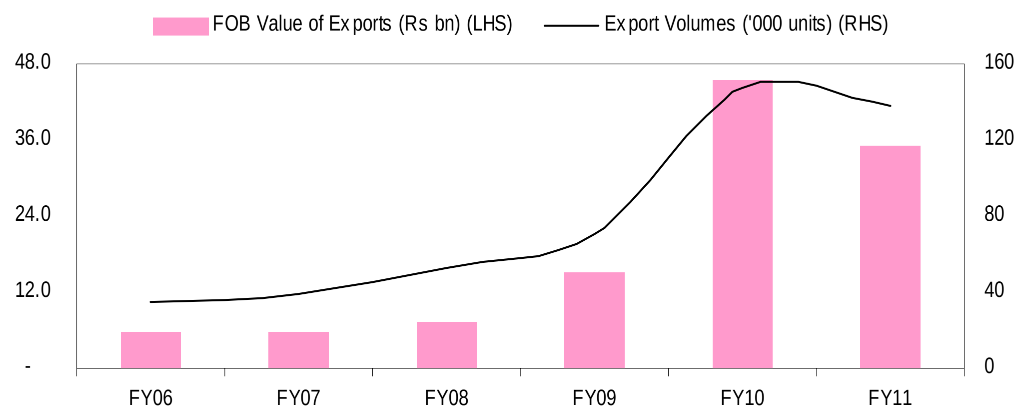


Source: Company, PINC Research

Exports

In FY10, MSIL had been a significant beneficiary of the government run scrappage schemes in major European countries. The company, specializing in compact cars, was able to derive benefit from the scheme which incentivized exchange of vehicles in lieu of fuel efficient models. During the year exports had doubled to 148k units. Europe accounted for two thirds of the total exports. In FY11, despite a high base and withdrawal of incentive schemes, MSIL managed to restrict the fall in exports to 6.3% by expanding to new geographies in Asia and Africa. The contribution of Europe in exports slumped to 20%. New markets such as Hungary, Malaysia, Laos and Lebanon were developed by the company.

Export Sales

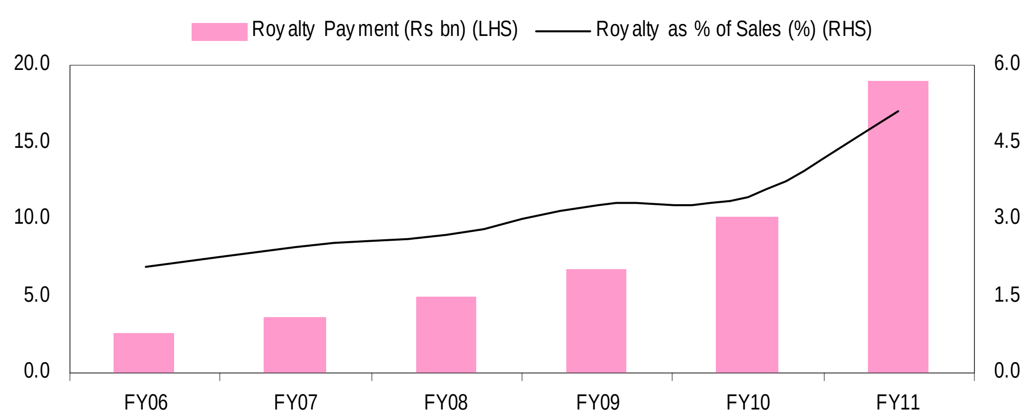


Source: Company, PINC Research

Increased Royalty

During the year, MSIL management hiked the percentage of running royalty per vehicle from ~3% to 5%. The company cited the development cost incurred in new generation K-series engines and new products being developed as the reasons behind the increase in royalty payments. The running royalty in FY11 surged 86% YoY to Rs19bn as against the 29% growth in sales volume. Royalty as a percentage of sales stood at 5.1% in FY11.

Royalty Payment



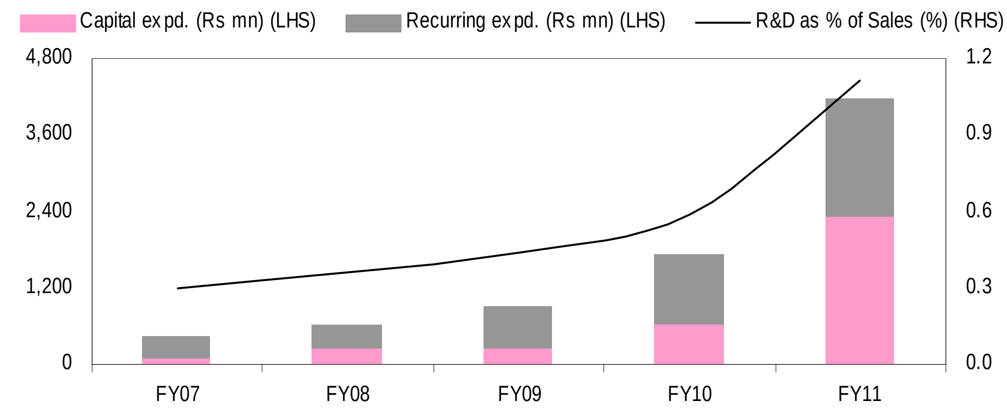
Source: Company, PINC Research

R&D

MSIL is in the process of setting up of a full fledged R&D centre at Rohtak, Haryana. The current in-house R&D is targeted at carrying out minor changes and co-design with parent Suzuki, Japan for new models. The R&D team has been ramped up from ~400 members in FY08 to 1,070 currently which will further be increased to 1,300 members. MSIL's expenditure on R&D more than doubled to Rs4.2bn.

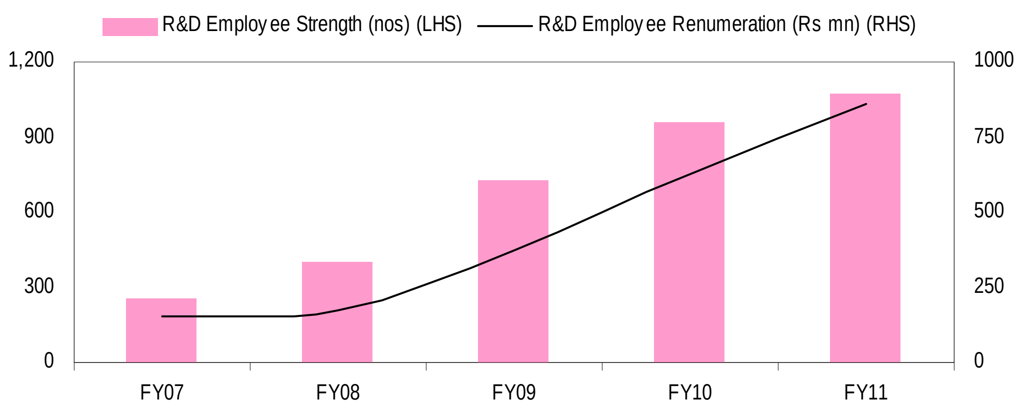
The Rohtak R&D centre would be capable of full vehicle in-house design and development and equipped with all testing facilities. The management expects to roll out a global car from its Rohtak R&D Centre by 2017.

Expenditure on R&D



Source: Company, PINC Research

R&D Strength

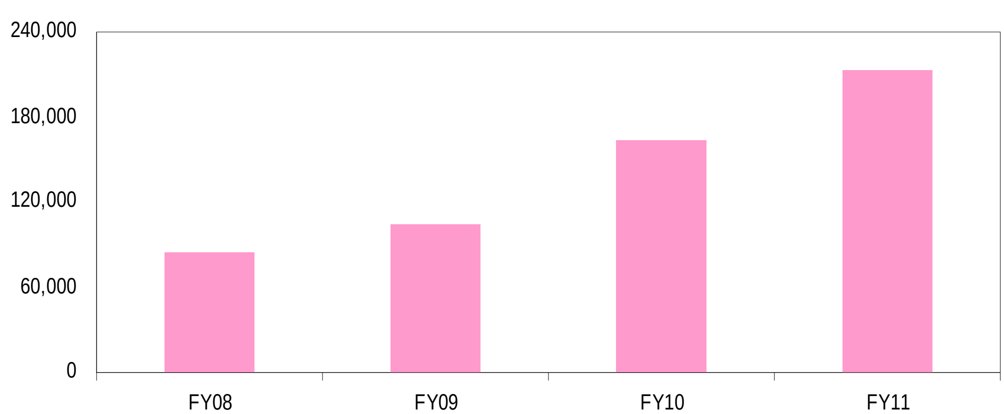


Source: Company, PINC Research

Pre-owned car business

MSIL has entered the pre owned car business through its 'True Value" outlets to benefit from the replacement demand for the cars. The management has stated that with reducing car ownership cycle, residual value has become an important determinant of total cost of ownership. Sales of its pre-owned car business, True Value, were up 30% YoY to 213k units.

True Value Car Sales (Units)



Source: Company, PINC Research

Capacity/Expansion

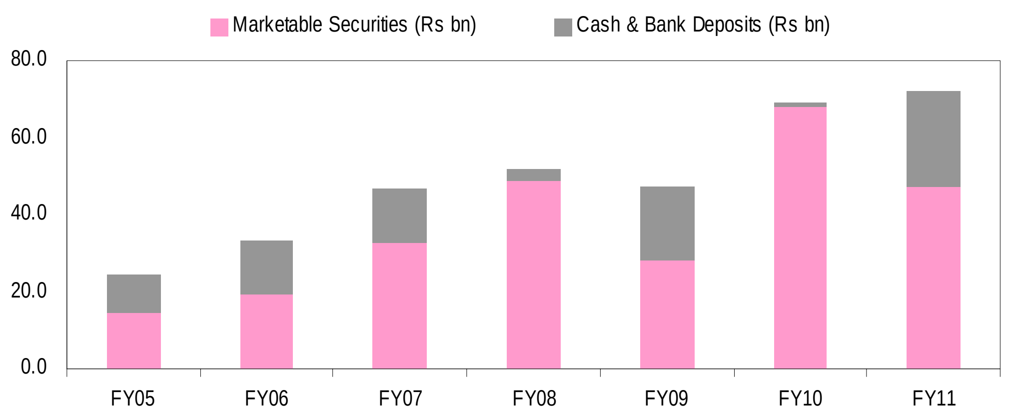
In FY11, against the installed capacity of 1.2mn units per annum, MSIL was able to churn out 1.27mn units. This feat was achieved sans an extra shift and was possible through increased productivity and innovations at the shop floor level. The company has undertaken an extensive capacity expansion programme. In the first stage a new assembly line of 250k unit per annum would be added at the Manesar facility by Q3FY12. In the second stage another line of similar capacity would be added by Q1FY13.

The company has also started scouting for a greenfield location to setup its third manufacturing facility in the country. The management is in discussion with various state governments and Gujarat with a close proximity to the sea coast is expected to be the likely destination.

Cash and cash equivalent of Rs72bn, negligible debt

MSIL had cash and liquid investments to the tune of Rs72bn on its books as of FY11. In contrast to FY10, wherein majority of the cash was held in liquid mutual funds, the company reduced exposure to mutual funds from Rs68bn to Rs40bn. The company invested Rs7bn in corporate bonds leaving Rs24bn in deposit accounts. Debt on books was further reduced to Rs3bn. The significant cash on books would be instrumental in the capex programme undertaken by the company.

Composition of Cash & Cash Equivalent



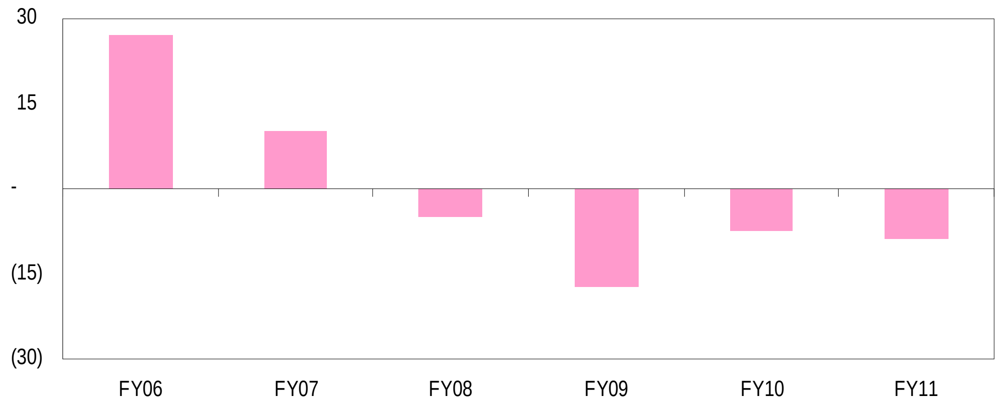
Source: Company, PINC Research

Negative working capital, Drop in return ratios

Despite a significant (350bps) drop in profitability during the year, cash flow from operations was stable YoY at Rs34bn. The steep jump in volumes stemmed the fall in profits. Also, a Rs4.7bn reduction in working capital boosted operating cash flow. MSIL managed to end the year with a negative working capital of Rs2.3bn.

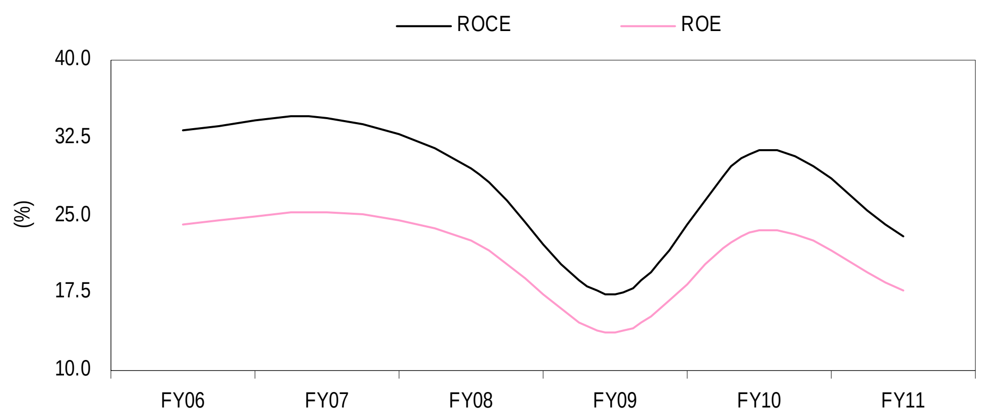
Return ratios suffered during the year due to the significant cash accumulation on the books and increase in capital work in progress.

Net Working Capital (days)



Source: Company, PINC Research

Return Ratios



Source: Company, PINC Research

Outlook

Subdued volume growth

The automobile industry ended FY11 on a high note and the growth of ~30% in passenger vehicle was higher than anticipation. However, the demand momentum was lost in the first quarter of FY12. Sentiment was dampened due to the consecutive petrol price hikes including the steep Rs5/- increase in May'11. Additionally the successive interest rate increases by RBI led to hardening of loans rates and increase in EMIs and consequently cost of ownership.

We maintain our growth estimate of 8% for FY12. Our volume estimates for FY12 and FY13 are 1.37mn and 1.57mn units respectively.

Margins to remain at current levels

MSIL's FY11 margins contracted 350bps primarily on account of the increase in royalty payments. The heightened competitive intensity and increase in cost of ownership for consumers due to rising interest rates and fuel cost further restrain the company from passing on cost pressure to consumers. Going forward we expect margins to remain in the current range. Our earnings estimate for FY12 and FY13 are Rs86.9 and Rs106.3 respectively.

Year Ended March (Figures in Rs mn)

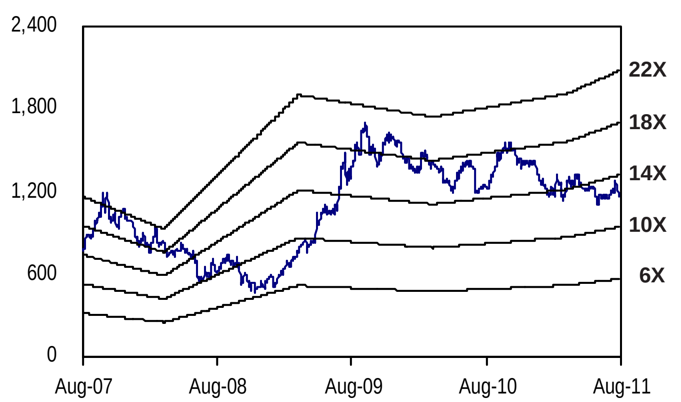
Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net sales	203,583	289,585	361,282	403,992	479,449
Growth (%)	*14.0*	*42.2*	*24.8*	*11.8*	*18.7*
Operating profit	15,345	33,140	27,663	30,956	37,666
Other operating income	3,100	6,511	9,118	9,520	11,140
EBITDA	18,445	39,651	36,781	40,476	48,806
Growth (%)	*(32.6)*	*115.0*	*(7.2)*	*10.0*	*20.6*
Depreciation	(7,065)	(8,250)	(10,135)	(11,698)	(13,566)
Other income	5,888	4,859	4,686	5,574	6,453
EBIT	17,268	36,260	31,332	34,352	41,693
Interest paid	(510)	(335)	(244)	(200)	(200)
PBT (before E/o items)	16,758	35,925	31,088	34,152	41,493
Tax provision	(4,571)	(10,949)	(8,202)	(9,050)	(10,788)
E/o Income / (loss)	-	-	-	-	-
Net profit	12,187	24,976	22,886	25,102	30,705
Adjusted net profit	12,187	24,976	22,886	25,102	30,705
Growth (%)	*(29.6)*	*104.9*	*(8.4)*	*9.7*	*22.3*
Diluted EPS (Rs)	42.2	86.4	79.2	86.9	106.3
Diluted EPS Growth (%)	*(29.6)*	*104.9*	*(8.4)*	*9.7*	*22.3*

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	16,758	35,925	31,088	34,152	41,493
Depreciation	6,610	7,322	8,263	11,698	13,566
Total tax paid	(4,310)	(10,007)	(9,779)	(8,118)	(10,464)
Chg in working capital	(2,031)	(1,480)	4,738	(2,731)	(894)
Other operating activities	(1,709)	1,947	-	-	-
Cash flow from oper. (a)	15,318	33,707	34,310	35,001	43,701
Capital expenditure	(15,603)	(12,124)	(23,720)	(34,539)	(25,175)
Chg in investments	(675)	(10)	(125)	-	-
Other investing activities	-	-	-	-	-
Cash flow from inv. (b)	(16,278)	(12,134)	(23,845)	(34,539)	(25,175)
Free cash flow (a+b)	(960)	21,573	10,465	462	18,526
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(2,013)	1,225	(5,121)	(1,712)	(1,200)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(1,691)	(1,183)	(2,021)	(2,518)	(3,032)
Other financing activities	-	-	(44)	-	-
Cash flow from fin. (c)	(3,704)	42	(7,186)	(4,230)	(4,232)
Net chg in cash (a+b+c)	(4,664)	21,615	3,279	(3,768)	14,294

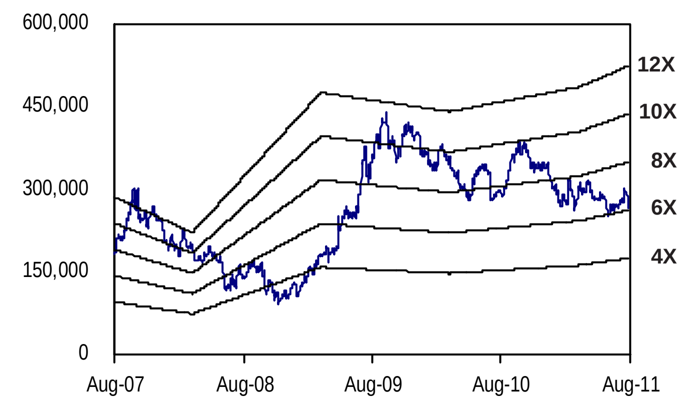
Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity capital	*1,445*	*1,445*	*1,445*	*1,445*	*1,445*
Reserves & surplus	*92,004*	*116,906*	*137,230*	*159,300*	*186,636*
Shareholders' funds	93,449	118,351	138,675	160,745	188,081
Preference Share Capital	-	-	-	-	-
Total Debt	6,989	8,214	3,093	1,381	181
Capital Employed	100,438	126,565	141,768	162,126	188,262
Net fixed assets	49,321	54,123	69,580	92,421	104,030
Cash & Cash Eq.	47,297	68,912	72,191	68,423	82,717
Net other Current Assets	1,545	1,064	(2,320)	(885)	(502)
Investments	3,826	3,836	3,961	3,961	3,961
Net Deferred Tax Assets	(1,551)	(1,370)	(1,644)	(1,794)	(1,944)
Total assets	100,438	126,565	141,768	162,126	188,262

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
EBITDA (%)	8.9	13.4	9.9	9.8	9.9
Net margin (%)	6.0	8.6	6.3	6.2	6.4
Dividend yield (%)	0.3	0.5	0.7	0.8	0.9
Net debt/Equity (x)	(0.4)	(0.5)	(0.5)	(0.4)	(0.4)
Net Working Capital (days)	(17)	(8)	(9)	(7)	(6)
Asset turnover (x)	1.6	1.9	2.1	2.0	2.1
ROCE (%)	17.4	31.3	22.9	22.2	23.4
RoE (%)	13.7	23.6	17.8	16.8	17.6
EV/Net sales (x)	1.4	0.9	0.7	0.7	0.5
EV/EBITDA (x)	15.7	6.8	7.1	6.5	5.1
PER (x)	27.0	13.2	14.4	13.1	10.7
Price/Book (x)	3.5	2.8	2.4	2.1	1.8

P/E Band



EV/EBIDTA



vineet.hetamasaria@pinc.co.in nikhil.deshpande@pinc.co.in

PINC RESEARCH

TEAM

EQUITY DESK

Sadanand Raje	Head - Institutional Sales Technical Analyst	*sadanand.raje@pinc.co.in*	91-22-6618 6366

RESEARCH

Vineet Hetamasaria, CFA	**Head of Research,** *Auto, Cement*	*vineet.hetamasaria@pinc.co.in*	91-22-6618 6388
Nikhil Deshpande	*Auto, Auto Ancillary, Cement*	*nikhil.deshpande@pinc.co.in*	91-22-6618 6339
Tasmai Merchant	*Auto, Auto Ancillary, Cement*	*tasmai.merchant@pinc.co.in*	91-22-6618 6377
Vinod Nair	*Construction, Power, Capital Goods*	*vinod.nair@pinc.co.in*	91-22-6618 6379
Ankit Babel	*Capital Goods, Engineering*	*ankit.b@pinc.co.in*	91-22-6618 6551
Hitul Gutka	*Power*	*hitul.gutka@pinc.co.in*	91-22-6618 6410
Subramaniam Yadav	*Construction*	*subramaniam.yadav@pinc.co.in*	91-22-6618 6371
Madhura Joshi	*Power*	*madhura.joshi@pinc.co.in*	91-22-6618 6395
Satish Mishra	*Fertiliser, Natural Gas*	*satish.mishra@pinc.co.in*	91-22-6618 6488
Urvashi Biyani	*Fertiliser, Natural Gas*	*urvashi.biyani@pinc.co.in*	91-22-6618 6334
Naveen Trivedi	*FMCG*	*naveent@pinc.co.in*	91-22-6618 6384
Rohit Kumar Anand	*IT Services*	*rohit.anand@pinc.co.in*	91-22-6618 6372
Namrata Sharma	*Media*	*namrata.sharma@pinc.co.in*	91-22-6618 6412
Sakshee Chhabra	*Media*	*sakshee.chhabra@pinc.co.in*	91-22-6618 6516
Bikash Bhalotia	*Metals, Mining*	*bikash.bhalotia@pinc.co.in*	91-22-6618 6387
Harleen Babber	*Metals, Mining*	*harleen.babber@pinc.co.in*	91-22-6618 6389
Dipti Vijaywargi	*Metals, Mining*	*dipti.vijaywargi @pinc.co.in*	91-22-6618 6393
Sushant Dalmia, CFA	*Pharma*	*sushant.dalmia@pinc.co.in*	91-22-6618 6462
Poonam Sanghavi	*Pharma*	*poonam.sanghavi@pinc.co.in*	91-22-6618 6709
Suman Memani	*Real Estate, Mid caps*	*suman.memani@pinc.co.in*	91-22-6618 6479
Abhishek Kumar	*Real Estate, Mid caps*	*abhishek.kumar@pinc.co.in*	91-22-6618 6398
C Krishnamurthy	*Technical Analyst*	*krishnamurthy.c@pinc.co.in*	91-22-6618 6747

SALES

Rajeev Gupta	*Equities*	*rajeev.gupta@pinc.co.in*	91-22-6618 6486
Ankur Varman	*Equities*	*ankur.varman@pinc.co.in*	91-22-6618 6380
Himanshu Varia	*Equities*	*himanshu.varia@pinc.co.in*	91-22-6618 6342
Shailesh Kadam	*Derivatives*	*shaileshk@pinc.co.in*	91-22-6618 6349
Ganesh Gokhale	*Derivatives*	*ganeshg@pinc.co.in*	91-22-6618 6347

DEALING

Mehul Desai	*Head - Sales Trading*	*mehul.desai@pinc.co.in*	91-22-6618 6303
Naresh Panjnani	*Co-Head - Sales Trading*	*naresh.panjnani@pinc.co.in*	91-22-6618 6333
Amar Margaje		*amar.margaje@pinc.co.in*	91-22-6618 6327
Ashok Savla		*ashok.savla@pinc.co.in*	91-22-6618 6321
Sajjid Lala		*sajjid.lala@pinc.co.in*	91-22-6618 6337
Raju Bhavsar		*rajub@pinc.co.in*	91-22-6618 6322
Kinjal Mehta		*kinjal.mehta@pinc.co.in*	91-22-6618 6333
Chandani Bhatia		*chandani.bhatia@pinc.co.in*	91-22-6618 6324
Hasmukh D. Prajapati		*hasmukhp@pinc.co.in*	91-22-6618 6325
Kamlesh Purohit		*kamlesh.purohit@pinc.co.in*	91-22-6618 6357

SINGAPORE DESK

Amul Shah		*amul.shah@sg.pinc.co.in*	65-6327 0626

DIRECTORS

Gaurang Gandhi		*gaurangg@pinc.co.in*	91-22-6618 6400
Hemang Gandhi		*hemangg@pinc.co.in*	91-22-6618 6400
Ketan Gandhi		*ketang@pinc.co.in*	91-22-6618 6400

COMPLIANCE

Rakesh Bhatia	Head Compliance	*rakeshb@pinc.co.in*	91-22-6618 6400

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1216, Maker Chambers V, Nariman Point, Mumbai - 400 021; Tel.: 91-22-66186633/6400 Fax : 91-22-22049195

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