

MARUTI SUZUKI INDIA

BUY
CMP Rs1,327
TP Rs1,658

25 April 2011

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Lower Tax Rate Boosts Bottomline

Maruti Suzuki's (MSIL) Q4FY11 performance was ahead of our estimate boosted by a gratuity provision write back and a lower tax rate. Reported margins stood at 10% as against our estimate of 9.5%. However, adjusting for write back in employee costs and change in accounting for tooling, adjusted margins were lower at 9.4%. R&D benefits lowered the tax rate by 850bps QoQ to 20.2%. As a result reported profit was flat YoY at Rs6.6bn exceeding our estimate of Rs5.7bn.

Marketshare contraction limited in FY11: MSIL was able to limit marketshare contraction to 140bps during FY11, despite increase in competitive intensity. Alto K10 and Eeco models helped in 27.3% growth in domestic volumes to 312k units during Q4FY11. Exports remained a damp squib, declining 26.4% to 31k units. Total volumes were higher by 19.5% at 343k units.

Improvement in product mix: There was a sequential improvement in product mix with higher contribution from C- segment (Dzire, SX4). Additionally, a price increase of 1% taken during the quarter helped to increase the average realisations by 2.4% QoQ to Rs287k/unit.

Inflated margins: Reported margins at 10% were inflated on two counts. Firstly, a Rs200mn write back was taken on gratuity provision thus lowering employee costs. Secondly, change in tooling policy deflated the raw material costs by Rs500mn. However, the benefit of lower raw material costs was negated by a similar increase in depreciation expenses.

Lower tax rate: Tax incentives on the increased R&D spend helped lower tax rate to 20.2%. Thus net profits remained flat at Rs6.6bn as against our estimate of Rs5.7bn.

Outlook: Increased capacity at Manesar plant and product refreshment will help MSIL to achieve a volume of 1.44mn units in FY12. We believe, MSIL margins have bottomed out and have marginally upped our FY12 margin estimates at 10% leading to 3% increase in FY12 earnings estimate to Rs94. We introduce FY13E earnings of Rs110.6.

VALUATIONS AND RECOMMENDATION

The stock is currently trading at 12x FY13 earnings estimate. The hike in royalty payments to parent and increase in competitive intensity have weighed on the stock. Going forward, we expect margins to be stable. We upgrade the stock to a 'BUY' with a target price of Rs1,658 discounting FY13E earnings 15x.

KEY FINANCIALS		Rs mn				
	FY09	FY10	FY11P	FY12E	FY13E	
Net Sales	203,583	289,585	361,282	422,214	491,534	
YoY Gr. (%)	14.0	42.2	24.8	16.9	16.4	
EBITDA	18,445	39,651	36,644	43,271	50,478	
EBITDA Marg. (%)	8.9	13.4	9.9	10.0	10.0	
Adjusted Net Profit	12,187	24,976	22,886	27,157	31,941	
YoY Gr. (%)	(29.6)	104.9	(8.4)	18.7	17.6	
KEY RATIOS						
Dil. EPS (Rs)	42.2	86.4	79.2	94.0	110.6	
ROCE (%)	17.4	31.3	22.9	23.9	24.0	
RoE (%)	13.7	23.6	17.8	18.0	18.0	
PER (x)	31.4	15.3	16.7	14.1	12.0	
EV/Net sales (x)	1.7	1.1	0.9	0.8	0.6	
EV/EBITDA (x)	18.6	8.1	8.6	7.3	5.7	

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Sep-10	Dec-10	Mar-11
Net Sales	91,473	94,945	100,922
YoY Gr. (%)	27.0	26.5	19.8
EBIDTA	9,603	9,018	10,097
EBIDTA Mar %	10.5	9.5	10.0
Adj. Net Profit	5,982	5,652	6,599
YoY Gr. (%)	5.0	(17.8)	0.5

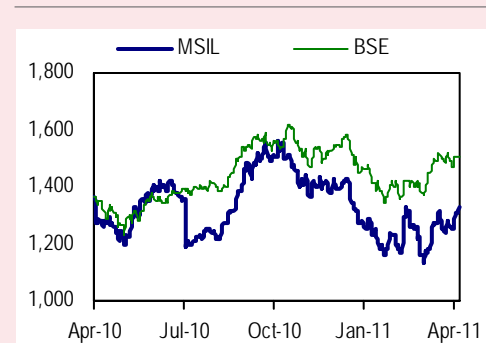
STOCK DATA

Market Cap	Rs383.4bn
Book Value per share	Rs480.1
Eq Shares O/S (F.V. Rs5)	289mn
Free Float	45.8%
Avg Traded Value (6 mnths)	Rs0.6bn
52 week High/Low	Rs1600/1126
Bloomberg Code	MSIL IN
Reuters Code	MRTI.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	12.2	2.7	(2.6)
Relative	8.2	0.5	(13.3)

RELATIVE PERFORMANCE



Q4FY11 Performance and Concall Highlights

- MSIL had gained marketshare in Q3FY11 due to success of the Alto K10 and new Wagon-R. Despite a 27.2% YoY volume growth in Q4FY11, marketshare declined to 47.5% due to an improved performance from competitors. Despite increased competition, MSIL was able to restrict its marketshare loss to 140bps to 50.1% aided by new launches and aggressive marketing.
- Total domestic volumes for the quarter were higher by 27.3% to 312k units. The Alto sales crossed the 100k mark for the first time. Alto now accounts for one third of MSIL's domestic volumes while retaining the largest selling car in India tag. SX4 volumes doubled on the back of the diesel launch. SX4 coupled with growth in Dzire volumes helped enrich the product mix.
- Exports have been lackluster in FY11 as the scrappage schemes were phased out in Europe. In Q4FY11, exports declined 26.4% to 31k units. In FY11, 60% of the exports were from non European geographies.
- Employee expenses were lower due to a Rs200mn write back in provisions for gratuity and leave encashment. The company has also effected a change in accounting policy for tooling given to vendors. In the earlier practice depreciation on tools was included by vendors in raw material costs. The company has now taken over these assets on its own books and hence the cost for the same is being amortised as depreciation instead of raw material expenses. During the quarter an additional depreciation charge of Rs500mn was taken on this account while inflating operating margins to the tune of 50bps.
- The company has changed its hedging policy. Instead of keeping its Yen exposure open, management has hedged 40% of its currency exposure on exports as well as imports.
- MSIL's current capacity stands at 1.4mn units per annum. The company would be commissioning 250k per annum line at Manesar by Oct'11 followed by another line of similar capacity by FY12 end or early FY13.
- During the current year the company incurred a capex of Rs22bn. In FY12, the management has guided for a capex of Rs40bn.
- The R&D spend during FY11 was to the tune of 1.1% of sales. Going forward the spend would be ramped up to 1.3-1.4% of sales. The tax rate is expected to remain at ~26-27% aided by the tax incentives available on the R&D spend.
- Since the month of Dec'10, the company has witnessed a lowering in footfalls and conversion ratio. This is attributable to increase in product prices, fuel costs and interest rates. However, despite these headwinds, the management is confident regarding industry growth of 10-15% during FY12.
- The company is keeping a close watch on the supply scenario from Japan and currently do not perceive any major risk to production schedule owing to component supply disruption.

Financial Table

(Rs mn)	Mar-11	Mar-10	YoY(%)	Dec-10	QoQ(%)	FY11	FY10	YoY(%)
Net Sales	98,637	82,349	19.8	92,767	6.3	361,282	289,585	24.8
Operating profit	7,813	9,214	(15.2)	6,841	14.2	28,271	32,898	(14.1)
Operating profit margins %	7.9	11.2	-330 bps	7.4	50 bps	7.8	11.4	-350 bps
Other Operating Income	2,285	1,897	20.4	2,177	4.9	8,372	6,645	26.0
EBIDTA	10,097	11,111	(9.1)	9,018	12.0	36,643	39,543	(7.3)
EBIDTA margins %	10.0	13.2	-320 bps	9.5	50 bps	9.9	13.3	-340 bps
Other Income	1,199	790	51.8	1,283	(6.5)	4,823	4,968	(2.9)
Interest	64	129	(50.6)	4	1663.9	244	335	(27.1)
Depreciation	2,967	2,230	33.0	2,369	25.2	10,135	8,250	22.8
PBT	8,266	9,542	(13.4)	7,928	4.3	31,087	35,925	(13.5)
Tax	1,667	2,976	(44.0)	2,276	(26.7)	8,201	10,949	(25.1)
% PBT	20.2	31.2	-1100 bps	28.7	-850 bps	26.4	30.5	-410 bps
PAT	6,599	6,566	0.5	5,652	16.8	22,886	24,976	(8.4)
NPM (%)	6.7	8.0	-130 bps	6.1	60 bps	6.3	8.6	-230 bps
EPS	22.8	22.7	0.5	19.6	16.8	79.2	86.4	(8.4)

Vehicle sales

(Unit)	Mar-11	Mar-10	YoY(%)	Dec-10	QoQ(%)	FY11	FY10	YoY(%)
Total Sales	343,340	287,422	19.5	330,687	3.8	1,271,005	1,018,367	24.8
Domestic	312,389	245,382	27.3	299,527	4.3	1,132,739	870,792	30.1
Exports	30,951	42,040	(26.4)	31,160	(0.7)	138,266	147,575	(6.3)
Total Cars	300,047	253,491	18.4	285,348	5.2	1,102,473	911,689	20.9
Domestic	269,524	211,819	27.2	255,024	5.7	966,447	765,533	26.2
Exports	30,523	41,672	(26.8)	30,324	0.7	136,026	146,156	(6.9)
Total MUVs	43,293	33,931	27.6	45,339	(4.5)	168,532	106,678	58.0
Domestic	42,865	33,563	27.7	44,503	(3.7)	166,292	105,259	58.0
Exports	428	368	16.3	836	(48.8)	2,240	1,419	57.9

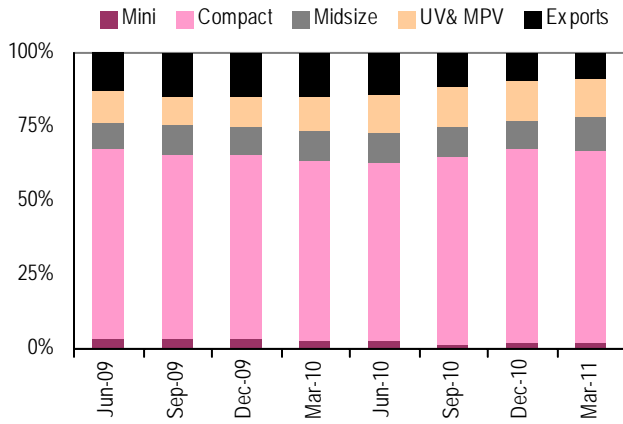
(%) of Sales

(%)	Mar-11	Mar-10	YoY (bps)	Dec-10	QoQ (bps)	FY11	FY10	YoY (bps)
Material cost	79.7	77.9	180	80.3	(50)	79.7	77.4	230
Staff cost	1.6	1.9	(30)	2.5	(100)	1.9	1.9	10
Other Expenses	10.8	9.1	170	9.9	90	10.5	9.4	120
Operating profit	7.9	11.2	(330)	7.4	(80)	7.8	11.4	(350)

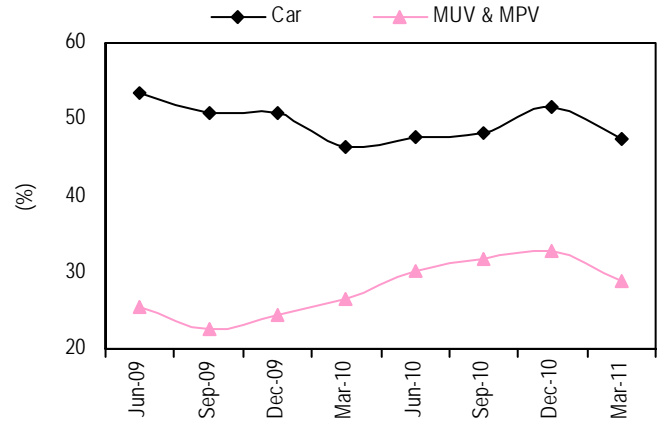
Per Vehicle

(Rs)	Mar-11	Mar-10	YoY(%)	Dec-10	QoQ(%)	FY11	FY10	YoY(%)
Realisations	287,288	286,508	0.3	280,529	2.4	284,249	284,362	(0.0)
Material cost	229,012	223,111	2.6	225,152	1.7	226,547	220,092	2.9
Employee cost	4,468	5,336	(16.3)	7,029	(36.4)	5,536	5,358	3.3
Other Expenses	31,053	26,004	19.4	27,661	12.3	29,923	26,608	12.5
Operating profit	22,755	32,057	(29.0)	20,686	10.0	22,243	32,304	(31.1)

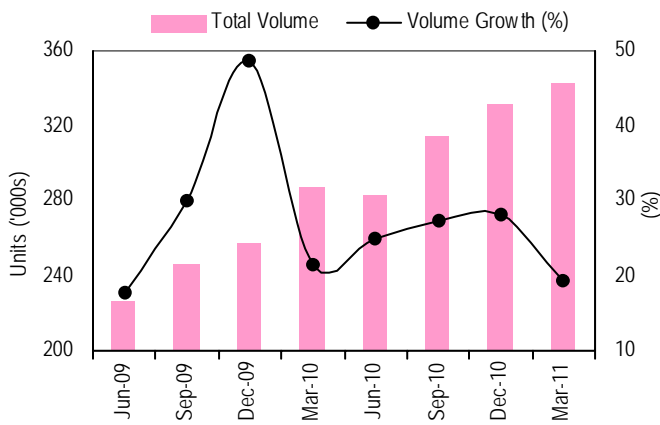
Product Mix



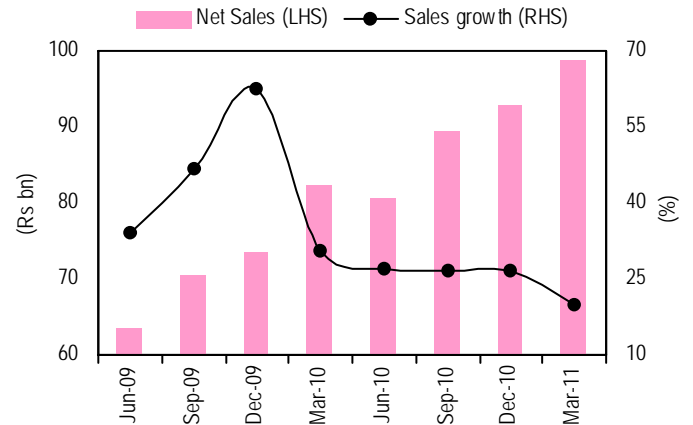
Domestic Marketshare



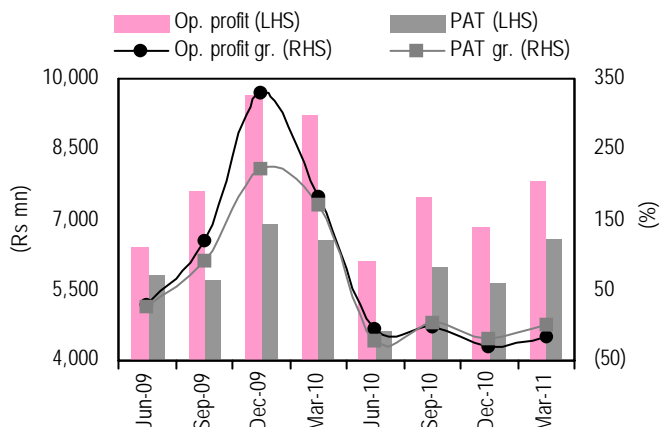
Total Sales Volume



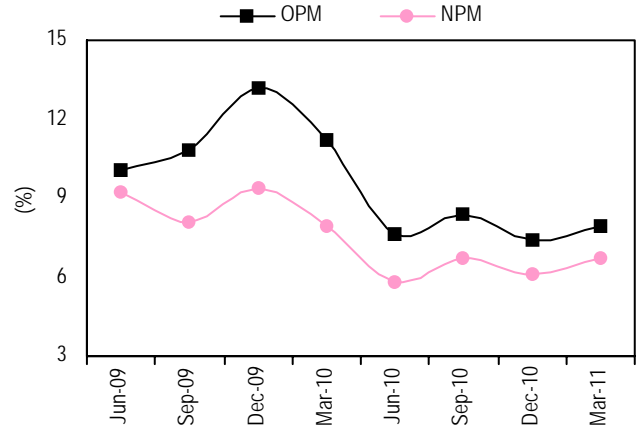
Net Sales



Net Profits



Profitability Trend



Year Ended March (Figures in Rs mn)

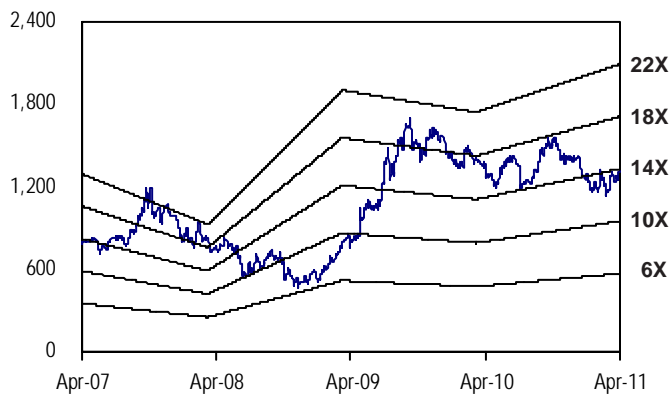
Income Statement	FY09	FY10	FY11P	FY12E	FY13E
Net sales	203,583	289,585	361,282	422,214	491,534
Growth (%)	14.0	42.2	24.8	16.9	16.4
Operating profit	15,345	33,140	27,525	32,638	38,062
Other operating income	3,100	6,511	9,119	10,633	12,416
EBITDA	18,445	39,651	36,644	43,271	50,478
Growth (%)	(32.6)	115.0	(7.6)	18.1	16.7
Depreciation	(7,065)	(8,250)	(10,135)	(11,701)	(13,571)
Other income	5,888	4,859	4,823	5,578	6,457
EBIT	17,268	36,260	31,332	37,148	43,364
Interest paid	(510)	(335)	(244)	(200)	(200)
PBT (before E/o items)	16,758	35,925	31,087	36,948	43,164
Tax provision	(4,571)	(10,949)	(8,201)	(9,791)	(11,223)
E/o Income / (loss)	-	-	-	-	-
Net profit	12,187	24,976	22,886	27,157	31,941
Adjusted net profit	12,187	24,976	22,886	27,157	31,941
Growth (%)	(29.6)	104.9	(8.4)	18.7	17.6
Diluted EPS (Rs)	42.2	86.4	79.2	94.0	110.6
Diluted EPS Growth (%)	(29.6)	104.9	(8.4)	18.7	17.6

Cash Flow Statement	FY09	FY10	FY11P	FY12E	FY13E
Pre-tax profit	16,758	35,925	31,087	36,948	43,164
Depreciation	6,610	7,322	10,135	11,701	13,571
Total tax paid	(4,310)	(10,007)	(9,093)	(9,470)	(10,930)
Chg in working capital	(2,031)	(1,480)	4,044	(2,572)	1,650
Other operating activities	(1,709)	1,947	-	-	-
Cash flow from oper. (a)	15,318	33,707	36,173	36,607	47,455
Capital expenditure	(15,603)	(12,124)	(25,592)	(37,532)	(12,175)
Chg in investments	(675)	(10)	-	-	-
Other investing activities	-	-	-	-	-
Cash flow from inv. (b)	(16,278)	(12,134)	(25,592)	(37,532)	(12,175)
Free cash flow (a+b)	(960)	21,573	10,581	(925)	35,280
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(2,013)	1,225	(5,121)	(1,400)	(1,400)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(1,691)	(1,183)	(2,021)	(2,527)	(3,032)
Other financing activities	-	-	-	-	-
Cash flow from fin. (c)	(3,704)	42	(7,142)	(3,927)	(4,432)
Net chg in cash (a+b+c)	(4,664)	21,615	3,439	(4,852)	30,848

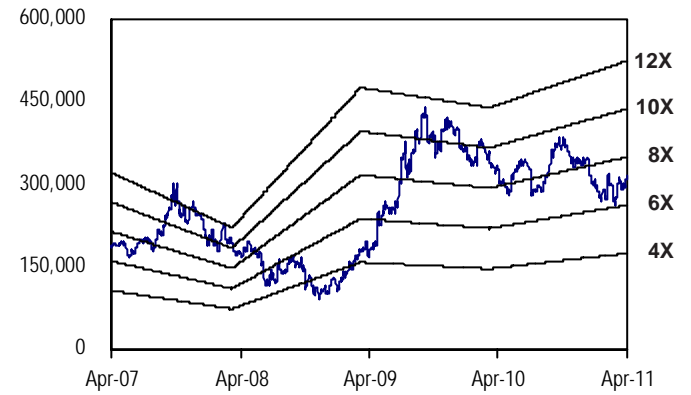
Balance Sheet	FY09	FY10	FY11P	FY12E	FY13E
Equity capital	1,445	1,445	1,445	1,445	1,445
Reserves & surplus	92,004	116,906	137,265	161,390	189,962
Shareholders' funds	93,449	118,351	138,710	162,835	191,407
Preference Share Capital	-	-	-	-	-
Total Debt	6,989	8,214	3,093	1,693	293
Capital Employed	100,438	126,565	141,803	164,528	191,700
Net fixed assets	49,321	54,123	69,580	95,411	94,015
Cash & Cash Eq.	47,297	68,912	72,351	67,500	98,348
Net other Current Assets	1,545	1,064	(2,320)	(424)	(2,554)
Investments	3,826	3,836	3,836	3,836	3,836
Net Deferred Tax Assets	(1,551)	(1,370)	(1,644)	(1,794)	(1,944)
Total assets	100,438	126,565	141,803	164,528	191,700

Key Ratios	FY09	FY10	FY11P	FY12E	FY13E
EBITDA (%)	8.9	13.4	9.9	10.0	10.0
Net margin (%)	6.0	8.6	6.3	6.4	6.5
Dividend yield (%)	0.3	0.5	0.6	0.7	0.8
Net debt/Equity (x)	(0.4)	(0.5)	(0.5)	(0.4)	(0.5)
Net Working Capital (days)	(17)	(8)	(8)	(9)	(9)
Asset turnover (x)	1.6	1.9	2.1	2.0	2.0
ROCE (%)	17.4	31.3	22.9	23.9	24.0
RoE (%)	13.7	23.6	17.8	18.0	18.0
EV/Net sales (x)	1.7	1.1	0.9	0.8	0.6
EV/EBITDA (x)	18.6	8.1	8.6	7.3	5.7
PER (x)	31.4	15.3	16.7	14.1	12.0
Price/Book (x)	4.1	3.2	2.8	2.4	2.0

P/E Band



EV/EBITDA



T E A M

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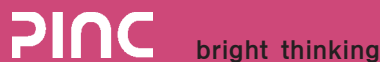
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