

MARUTI SUZUKI INDIA

HOLD
CMP Rs1,358
TP Rs1,405

26 July 2010

A 'Royal'ty Shocker

An unexpected increase in the royalty payment by Maruti Suzuki (MSIL) led to a 20% decline in Q1FY11 net profits to Rs465mn. The company has hiked royalty and technology fees to its parent Suzuki from ~3.4% to 5.1%. Post this, we revise our FY11 and FY12 earnings estimate downwards by ~20% each.

Intensive competition erodes marketshare: MSIL continued to feel the heat with competition hotting up with new launches especially in the A2 Segment. MSIL domestic car volumes were up 18.7% to 206k units as against an industry growth of 33% i.e. a marketshare loss of 590bps. However, in the MPV segment MSIL marketshare expanded 480bps as the new launch Eeco made a good start. Exports grew at a brisk pace of 37.9% to 40k units.

Damp realisations: In spite of a price hike undertaken to pass on the new emission norms, realisations QoQ remained flat at Rs284k/unit. The hit was primarily due to a weak Euro, as realisations on exports declined. Raw material cost per vehicle increased 1.4% QoQ to Rs226k/unit.

Royalty blues: With RBI permitting the increase in royalty effective 15th December 2009, MSIL increased the royalty payment to its parent from ~3.4% to 5.1%. This resulted in an additional outgo of Rs1.3bn for Q1FY11 and arrears of Rs650mn for FY10. Dented by this, net profits declined by 20.3% to Rs465mn.

Outlook: While maintaining our volume estimates for FY11 and FY12, we have reduced margin estimates by 200bps each to reflect the change in policy on royalty payments. As a result, our earnings estimate for FY11 and FY12 have reduced by ~20% each. FY11 and FY12 earnings estimates are at Rs75.3 and Rs87.8 respectively.

VALUATIONS AND RECOMMENDATION

The stock is currently trading at 15.5x its FY12 earnings estimate. We downgrade the stock to a 'HOLD' with a target price of Rs1,405 discounting FY12E earnings 16x.

KEY FINANCIALS						Rs mn
	FY08	FY09	FY10P	FY11E	FY12E	
Net Sales	178,603	203,583	289,585	328,440	379,830	
YoY Gr. (%)	22.4	14.0	42.2	13.4	15.6	
EBITDA	27,358	18,445	39,543	37,128	43,509	
EBITDA Marg. (%)	14.9	8.9	13.3	11.1	11.2	
Adjusted Net Profit	17,308	12,187	24,976	21,752	25,364	
YoY Gr. (%)	10.8	(29.6)	104.9	(12.9)	16.6	
KEY RATIOS						
Dil. EPS (Rs)	59.9	42.2	86.4	75.3	87.8	
ROCE (%)	29.5	17.4	31.8	23.7	24.0	
RoE (%)	22.7	13.7	23.7	17.1	17.0	
PER (x)	22.7	32.2	15.7	18.0	15.5	
EV/Net sales (x)	2.0	1.7	1.1	1.0	0.9	
EV/EBITDA (x)	12.8	19.1	8.2	8.8	7.4	

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Dec-09	Mar-10	Jun-10
Net Sales	75,029	84,246	82,315
YoY Gr. (%)	62.2	31.0	26.8
EBIDTA	11,339	11,111	7,925
EBIDTA Mar %	15.1	13.2	9.6
Adj. Net Profit	6,875	6,566	4,654
YoY Gr. (%)	221.9	170.0	-20.3

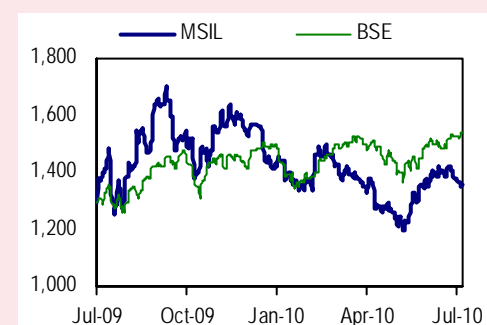
STOCK DATA

Market Cap	Rs392.5bn
Book Value per share	Rs405.8
Eq Shares O/S (F.V. Rs5)	289mn
Free Float	47.4%
Avg Traded Value (6 mths)	Rs0.9bn
52 week High/Low	Rs1740/1171
Bloomberg Code	MSIL IN
Reuters Code	MRTI.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(0.8)	(0.3)	4.8
Relative	(3.0)	(2.7)	(14.2)

RELATIVE PERFORMANCE



Financial Table

(Rs mn.)	Jun-10	Jun-09	YoY(%)	Mar-10	QoQ(%)	FY10	FY09	YoY(%)
Net Sales	80,507	63,403	27.0	82,349	(2.2)	289,585	203,583	42.2
Operating profit	6,117	6,404	(4.5)	9,214	(33.6)	32,898	13,886	136.9
Operating profit margins %	7.6	10.1	-250 bps	11.2	-360 bps	11.4	6.8	450 bps
Other Operating Income	1,809	1,527	18.4	1,897	(4.7)	6,645	5,226	27.2
EBIDTA	7,925	7,932	(0.1)	11,111	(28.7)	39,543	19,112	106.9
EBIDTA margins %	9.6	12.2	-260 bps	13.2	-360 bps	13.3	9.2	420 bps
Other Income	1,002	2,165	(53.7)	790	26.9	4,968	5,222	(4.9)
Interest	80	63	26.5	129	(37.9)	335	510	(34.3)
Depreciation	2,417	1,961	23.3	2,230	8.4	8,250	7,065	16.8
PBT	6,430	8,073	(20.3)	9,542	(32.6)	35,925	16,759	114.4
Tax	1,777	2,238	(20.6)	2,976	(40.3)	10,949	4,572	139.5
% PBT	27.6	27.7	-10 bps	31.2	-360 bps	30.5	27.3	320 bps
PAT	4,654	5,835	(20.3)	6,566	(29.1)	24,976	12,187	104.9
NPM (%)	5.8	9.2	-340 bps	8.0	-220 bps	8.6	6.0	260 bps
EPS	16.1	20.2	(20.3)	22.7	(29.1)	86.4	42.2	104.9

Vehicle sales

(Unit)	Jun-10	Jun-09	YoY(%)	Mar-10	QoQ(%)	FY10	FY09	YoY(%)
Total Sales	283,324	226,729	25.0	287,422	(1.4)	1,018,367	792,181	28.6
Domestic	242,887	197,415	23.0	245,382	(1.0)	870,792	722,144	20.6
Exports	40,437	29,314	37.9	42,040	(3.8)	147,575	70,037	110.7
Total Cars	246,340	202,883	21.4	253,491	(2.8)	911,689	705,556	29.2
Domestic	206,377	173,799	18.7	211,819	(2.6)	765,533	636,707	20.2
Exports	39,963	29,084	37.4	41,672	(4.1)	146,156	68,849	112.3
Total MUVs	36,984	23,846	55.1	33,931	9.0	106,678	86,625	23.1
Domestic	36,510	23,616	54.6	33,563	8.8	105,259	85,437	23.2
Exports	474	230	106.1	368	28.8	1,419	1,188	19.4

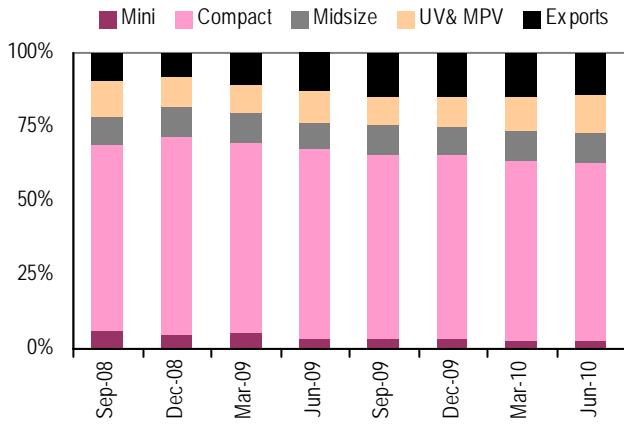
(%) of Sales

%	Jun-10	Jun-09	YoY (bps)	Mar-10	QoQ (bps)	FY10	FY09	YoY (bps)
Material cost	79.6	78.2	150	77.9	180	77.4	79.8	(240)
Staff cost	2.0	2.1	(10)	1.9	10	1.9	2.3	(40)
Other Expenses	10.8	9.6	110	9.1	170	9.4	11.1	(170)
Operating profit	7.6	10.1	(250)	11.2	(80)	11.4	6.8	450

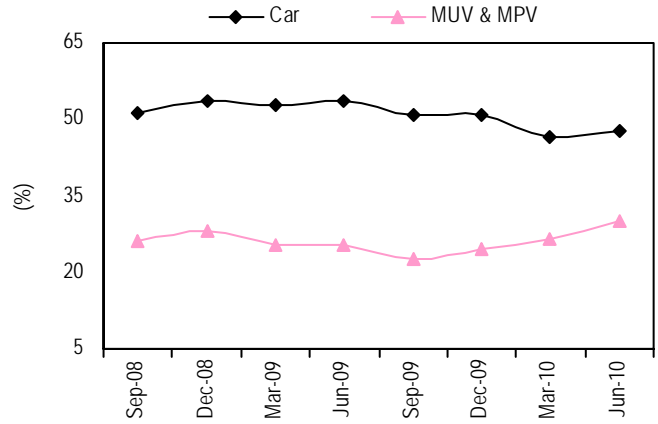
Per Vehicle

(Rs)	Jun-10	Jun-09	YoY(%)	Mar-10	QoQ(%)	FY10	FY09	YoY(%)
Realisations	284,151	279,640	1.6	286,508	(0.8)	284,362	256,990	10.7
Material cost	226,251	218,545	3.5	223,111	1.4	220,092	205,038	7.3
Employee cost	5,681	5,891	(3.6)	5,336	6.5	5,358	5,947	(9.9)
Other Expenses	30,630	26,958	13.6	26,004	17.8	26,608	28,477	(6.6)
Operating profit	21,588	28,246	(23.6)	32,057	(32.7)	32,304	17,528	84.3

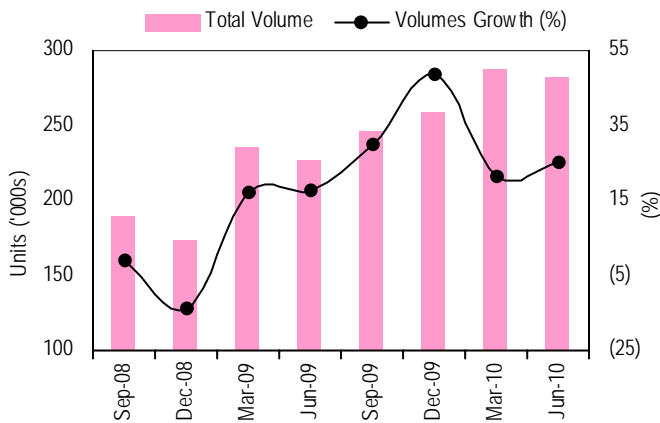
Product Mix



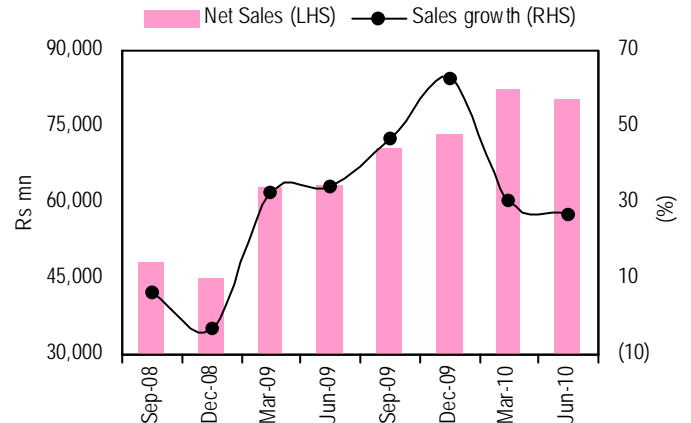
Domestic Marketshare



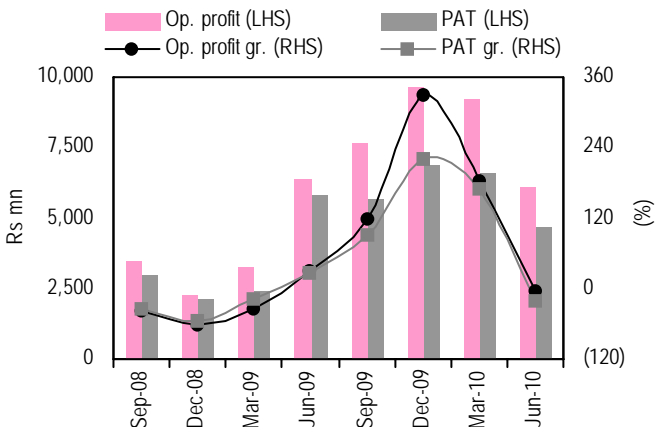
Total Sales Volume



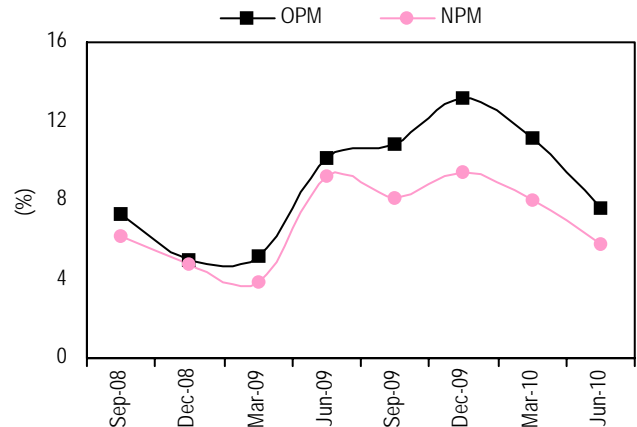
Net Sales



Net Profits



Profitability Trend



Year Ended March (Figures in Rs mn)

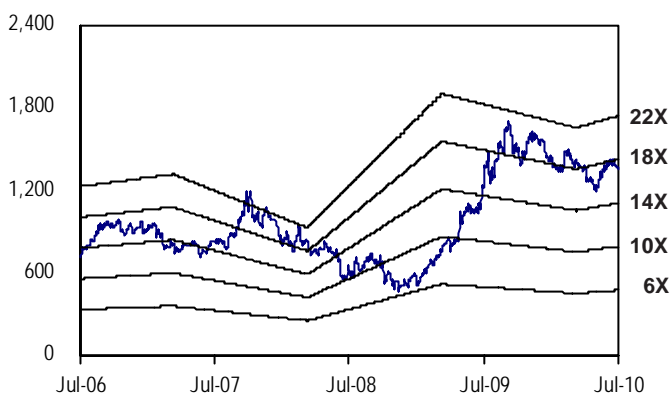
Income Statement	FY08	FY09	FY10P	FY11E	FY12E
Net sales	178,603	203,583	289,585	328,440	379,830
Growth (%)	22.4	14.0	42.2	13.4	15.6
Operating profit	22,202	15,345	32,897	29,690	34,785
Other operating income	5,156	3,100	6,646	7,438	8,724
EBITDA	27,358	18,445	39,543	37,128	43,509
Growth (%)	19.6	(32.6)	114.4	(6.1)	17.2
Depreciation	(5,682)	(7,065)	(8,250)	(10,205)	(12,117)
Other income	3,950	5,888	4,968	4,975	5,703
EBIT	25,626	17,268	36,261	31,898	37,095
Interest paid	(596)	(510)	(335)	(600)	(600)
PBT (before E/o items)	25,030	16,758	35,926	31,298	36,495
Tax provision	(7,722)	(4,571)	(10,949)	(9,546)	(11,131)
E/o Income / (loss)	-	-	-	-	-
Net profit	17,308	12,187	24,976	21,752	25,364
Adjusted net profit	17,308	12,187	24,976	21,752	25,364
Growth (%)	10.8	(29.6)	104.9	(12.9)	16.6
Diluted EPS (Rs)	59.9	42.2	86.4	75.3	87.8
Diluted EPS Growth (%)	10.8	(29.6)	104.9	(12.9)	16.6

Cash Flow Statement	FY08	FY09	FY10P	FY11E	FY12E
Pre-tax profit	25,030	16,758	35,926	31,298	36,495
Depreciation	5,017	6,610	8,250	10,205	12,117
Total tax paid	(8,426)	(4,310)	(10,690)	(9,551)	(10,823)
Chg in working capital	357	(2,031)	6,013	(7,569)	(472)
Other operating activities	-	(1,501)	854	855	-
Cash flow from oper. (a)	21,978	15,526	40,352	25,238	37,318
Capital expenditure	(16,359)	(15,603)	(12,387)	(25,500)	(30,175)
Chg in investments	(1,716)	(675)	-	-	-
Other investing activities	-	-	-	-	-
Cash flow from inv. (b)	(18,075)	(16,278)	(12,387)	(25,500)	(30,175)
Free cash flow (a+b)	3,903	(752)	27,965	(262)	7,143
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	2,694	(2,013)	(1,583)	(1,500)	(1,500)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(1,521)	(1,691)	(1,183)	(2,028)	(2,366)
Other financing activities	-	-	-	-	-
Cash flow from fin. (c)	1,173	(3,704)	(2,766)	(3,528)	(3,866)
Net chg in cash (a+b+c)	5,076	(4,456)	25,199	(3,790)	3,277

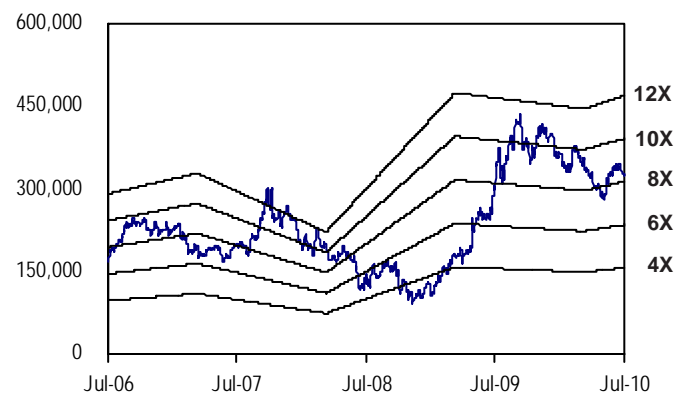
Balance Sheet	FY08	FY09	FY10P	FY11E	FY12E
Equity capital	1,445	1,445	1,445	1,445	1,445
Reserves & surplus	82,709	92,004	115,806	136,047	158,707
Shareholders' funds	84,154	93,449	117,251	137,492	160,152
Preference Share Capital	-	-	-	-	-
Total Debt	9,002	6,989	5,406	3,906	2,406
Capital Employed	93,156	100,438	122,657	141,398	162,558
Net fixed assets	40,328	49,321	53,458	68,753	86,811
Cash & Cash Eq.	51,961	47,297	72,496	68,706	71,982
Net other Current Assets	(583)	1,545	(5,572)	1,814	1,790
Investments	3,151	3,826	3,826	3,826	3,826
Net Deferred Tax Assets	(1,701)	(1,551)	(1,551)	(1,701)	(1,851)
Total assets	93,156	100,438	122,657	141,398	162,558

Key Ratios	FY08	FY09	FY10P	FY11E	FY12E
EBITDA (%)	14.9	8.9	13.3	11.1	11.2
Net margin (%)	9.7	6.0	8.6	6.6	6.7
Dividend yield (%)	0.4	0.3	0.4	0.5	0.6
Net debt/Equity (x)	(0.5)	(0.4)	(0.6)	(0.5)	(0.4)
Net Working Capital (days)	(5)	(17)	(18)	(9)	(10)
Asset turnover (x)	1.6	1.6	1.9	1.8	1.8
ROCE (%)	29.5	17.4	31.8	23.7	24.0
RoE (%)	22.7	13.7	23.7	17.1	17.0
EV/Net sales (x)	2.0	1.7	1.1	1.0	0.9
EV/EBITDA (x)	12.8	19.1	8.2	8.8	7.4
PER (x)	22.7	32.2	15.7	18.0	15.5
Price/Book (x)	4.7	4.2	3.3	2.9	2.5

P/E Band



EV/EBITDA



T E A M

EQUITY DESK

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