

## Maruti Suzuki

Q4FY11/ Estimates change

25 April 2011

## BUY

Target Price: Rs1,562

CMP: Rs 1,327\*

Upside: 18%

\*as on 25 April 2011

## Stays on course; maintain BUY

Maruti Suzuki India (MSIL)'s Q4FY11 operating results were marginally better than our estimates. Operating margin stood at 10% (vs our estimate: 9.7%). However, adjusted PAT at Rs6.6bn was much higher than our estimate of Rs6.1bn largely on account of lower-than-expected tax rate (20.2% vs estimated 28.7%). Despite increasing competition, MSIL was able to maintain its market share in the compact car segment at 55.8% in FY11 compared to 56.1% in FY10. We continue to remain positive on the stock and maintain our BUY rating with revised target price of Rs1,562 (earlier: Rs1,590).

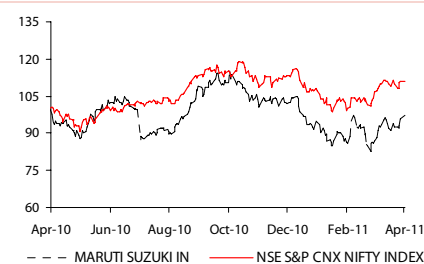
- **Volume growth propels revenue:** Q4 revenue increased 20% YoY and 6% QoQ revenue growth to Rs101bn (estimate: Rs99.7bn) driven by 20% YoY (and 4% QoQ) volume growth. Average net realizations remained flat YoY. However, on a QoQ basis, they improved by 2.4% vs our estimate of 1.3%.
- **Margin higher than expected:** EBITDA margin contracted 318bp YoY, but improved 51bp QoQ to 10.0% (our estimate: 9.7%). EBITDA margin was higher-than-estimated mainly on account of lower employee costs (Rs1.53bn against Rs1.86bn estimated, write-back of Rs200mn on account of excess provision) and better-than-expected revenue growth.
- **Low tax rate boosts adjusted PAT:** Adjusted PAT stood at Rs6.6bn (up 0.5% YoY and 17% QoQ), higher than our estimate of Rs6.1bn. The variance is explained by the low tax rate because of R&D benefits during the quarter (tax rate in Q4 was 20.2% vs average of 28.6% during 9MFY11).
- **Earnings estimates lowered:** We have cut our earnings estimates by 4.9% for FY12E and 6.6% for FY13E due to higher-than-expected pressure on EBITDA margins and lower other income.
- **Valuation and Recommendations:** At CMP of Rs1,327, the stock trades at 14.9x FY12E core EPS of Rs71.8 and 12.3x FY13E core EPS of Rs83.9. We continue to remain positive on the stock considering the company's success in maintaining market share despite competition. We reiterate our BUY rating with a revised target price of Rs1,562 (core business valued at 15.3x FY13E earnings + Rs84 as value of investments in subsidiaries + Rs195 value of cash and cash equivalents).

## Key Data

Bloomberg Code	MSIL IN
Reuters Code	MRTI.BO
Current Shares O/S (mn)	288.9
Diluted Shares O/S(mn)	288.9
Mkt Cap (Rsbn/USDbn)	383.2/8.6
52 Wk H / L (Rs)	1600/1122
Daily Vol. (3M NSE Avg.)	482,547
Face Value (Rs)	5

USD = Rs44.5

## One Year Indexed Stock Performance



## Price Performance (%)

	1M	6M	1Yr
MSIL	12.2	(12.0)	(2.6)
NIFTY	8.5	(3.2)	11.5

Source: Bloomberg, Centrum Research  
\*as on 25 April 2011

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Y/E Mar (Rsmn)	Q4FY11	Q4FY10	YoY (%)	Q3FY11	QoQ (%)	Q4FY11E	Var (%)
<b>Net sales</b>	<b>100,922</b>	<b>84,246</b>	<b>19.8</b>	<b>94,945</b>	<b>6.3</b>	<b>99,705</b>	<b>1.2</b>
Consumption of raw materials	78,629	64,127		74,455		78,558	
% of sales	77.9	76.1	179 bp	78.4	(51) bp	78.8	(88) bp
Employee costs	1,534	1,534		2,325		1,863	
% of sales	1.5	1.8		2.4		1.9	
Other expenditure	10,662	7,474		9,147		9,618	
% of sales	10.6	8.9		9.6		9.6	92 bp
<b>Operating profit</b>	<b>10,097</b>	<b>11,111</b>	<b>(9.1)</b>	<b>9,018</b>	<b>12.0</b>	<b>9,666</b>	<b>4.5</b>
<b>OPM (%)</b>	<b>10.0</b>	<b>13.2</b>	<b>(318) bp</b>	<b>9.5</b>	<b>51 bp</b>	<b>9.7</b>	<b>31 bp</b>
Depreciation and amortisation	2,967	2,230		2,369		2,369	
Interest	64	129		4		-	
EBT	7,067	8,752	(19.3)	6,645	6.4	7,296	(3.1)
Other income	1,199	790		1,283		1,208	
<b>PBT</b>	<b>8,266</b>	<b>9,542</b>	<b>(13.4)</b>	<b>7,928</b>	<b>4.3</b>	<b>8,505</b>	<b>(2.8)</b>
Provision for tax	1,667	2,976		2,276		2,442	
-effective tax rate	20.2	31.2		28.7		28.7	
<b>PAT (Adjusted)</b>	<b>6,599</b>	<b>6,566</b>	<b>0.5</b>	<b>5,652</b>	<b>16.8</b>	<b>6,063</b>	<b>8.8</b>
<b>PAT (Reported)</b>	<b>6,599</b>	<b>6,566</b>	<b>0.5</b>	<b>5,652</b>	<b>16.8</b>	<b>6,063</b>	<b>8.8</b>
<b>NPM (%)</b>	<b>6.5</b>	<b>7.8</b>	<b>(125) bp</b>	<b>6.0</b>	<b>59 bp</b>	<b>6.1</b>	<b>46 bp</b>

Source: Company, Centrum Research Estimates

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	208,525		18,320	8.8	12,187		42.2	13.7	17.8	18.4	10.0
FY10	296,231	42.1	39,543	13.3	24,976	104.9	86.4	23.6	31.9	15.3	8.2
FY11	370,401	25.0	36,644	9.9	22,887	(8.4)	79.2	17.8	23.4	16.8	8.6
FY12E	431,355	16.5	44,200	10.2	26,118	14.1	90.4	17.4	23.5	14.7	7.3
FY13E	503,344	16.7	52,577	10.4	30,192	15.6	104.5	17.2	23.5	12.7	6.0

Source: Company, Centrum Research Estimates

**Please refer to important disclosures/disclaimers in Appendix A**

**Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet**

## Conference call highlights

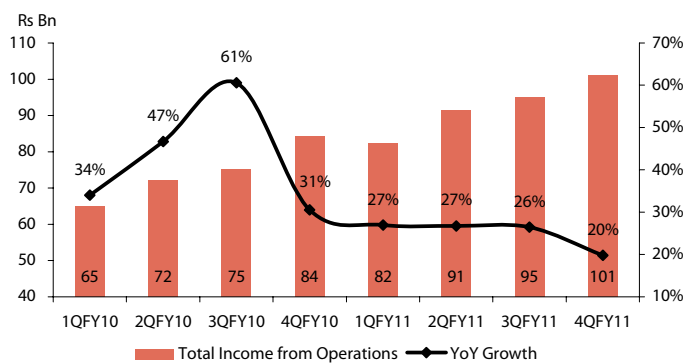
- **Volume outlook for FY12:** The management guided domestic volume growth of 10-15% for the PV industry in FY12, inline with SIAM's projections. We have factored in 12-13% YoY volume growth in FY12.
- **To expand Manesar capacity by 250,000 units in H2FY12E:** Currently, MSIL has total installed capacity of 1.4mn units at its Manesar plant. By H2FY12, it will have additional capacity of 250,000 units taking the total capacity to 1.65mn units by end FY12.
- **Capex guidance at Rs40bn in FY12E vs Rs26bn in FY11:** MSIL has incurred total capex of Rs25.6bn in FY11 and has guided for overall capex of Rs40bn for FY12E.
- **Exports to focus on increased contribution from non-European markets:** During FY11, MSIL registered a 6% YoY volume drop to 138,266 units from 147,575 units in FY10. Export revenue in FY11 was Rs38.3bn (realization: Rs277,022/unit) compared to Rs48.3bn in FY10 (realization: Rs.327,088). Exports accounted for 11% of total volumes and 10.5% of revenues in FY11.
- **Tax rate to remain lower at 26-27%:** MSIL has guided for tax rate to be in the range of 26-27%. It indicated that directionally the tax rates would be lower on account of increased R&D expenditure. Currently, its R&D expenditure-to-net sales stands at 1.1% and progressively it could inch up to 1.3-1.4%. We have factored a tax rate of 27%, the higher end of guidance compared to earlier estimate of 30%, for both FY12E and FY13E.

## Q4 FY11 revenue at Rs101bn (up 20% YoY and 6% QoQ)

MSIL reported 20% YoY and 6% QoQ revenue growth in Q4FY11 to Rs101bn (vs our estimate of Rs99.7bn) driven by 20% YoY and 4% QoQ volume growth. Realizations increased 2.4% QoQ (vs our estimate of 1.3%) to Rs287,288/unit. This improvement was due to the company's improved product mix during the quarter and price hikes taken during Jan 2011.

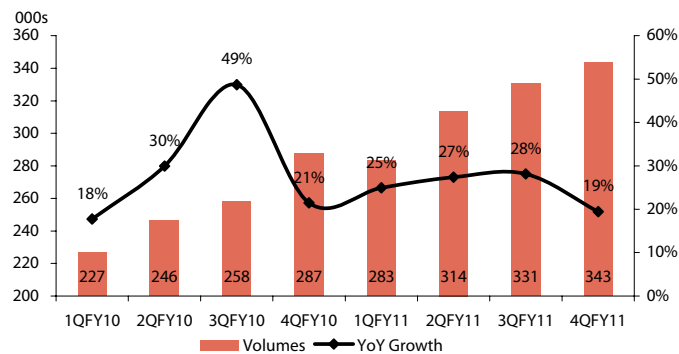
However, realizations remained flat on YoY basis (up 0.3%). Volume growth was mainly driven by domestic volumes which grew by 27% YoY and 4.3% QoQ. Export volumes declined by 26% YoY and 1% QoQ.

Exhibit 1: Quarterly trend in revenues



Source: Company, Centrum Research

Exhibit 2: Quarterly trend in volumes



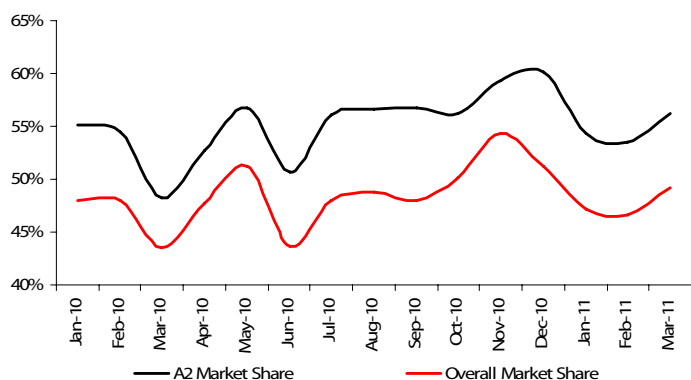
Source: Company, Centrum Research

## MSIL continues to hold market share; FY11 volumes inline

Despite increasing competition in the compact car (A2) segment, MSIL was able to maintain its market leadership. In FY11, the company had a market share of 55.8% vs 56.1% for FY10 (a market share loss of 29bp). During the same time, major competitors lost far more market share (Hyundai Motors lost 284bp and Tata Motors 338 bp).

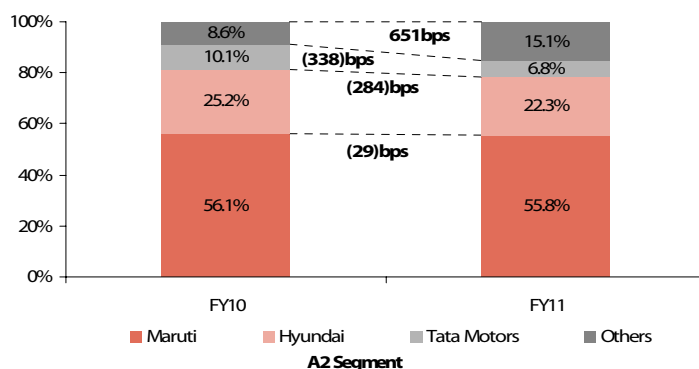
Volume estimates for the domestic PV industry were broadly inline with our estimates for FY11. We expect MSIL to hold on to its market share and estimate 54.8%/54.1% market share in the A2 segment in FY12E/FY13E and 47.8%/47.3% market share overall.

Exhibit 3: MSIL continues to maintain market share ...



Source: Company, Centrum Research

Exhibit 4: ... lost less market share than competitors



Source: Company, Centrum Research

Exhibit 5: Market share for domestic Passenger Car industry inline with estimates

A2 Segment (%)	FY11E	FY11A	Variance
<b>Cars</b>			
Maruti Suzuki India Ltd	55.7	55.8	(0.1)
Hyundai Motors India Ltd	21.9	22.4	(0.5)
Tata Motors	7.5	6.8	0.7
General Motors India Ltd	5.2	5.0	0.1
Others	9.7	10.0	(0.3)

Overall PV (%)	FY11E	FY11A	Variance
<b>Cars</b>			
Maruti Suzuki India Ltd	48.8	48.8	(0.1)
Hyundai Motors India Ltd	18.1	18.2	(0.1)
Tata Motors	14.1	13.0	1.1
General Motors India Ltd	4.5	4.4	0.1
Others	14.5	15.5	(1.1)

Source: SIAM, Company, Centrum Research Estimates

## EBITDA margin at 10%

EBITDA margin contracted 318bp YoY, but improved 51bp QoQ to 10.0%, higher than our estimate of 9.7%. EBITDA margin was higher than our estimate mainly on account of lower employee costs (Rs1.53bn vs estimated Rs1.86bn), write-back of Rs200mn on account of excess provision and better-than-expected revenue growth.

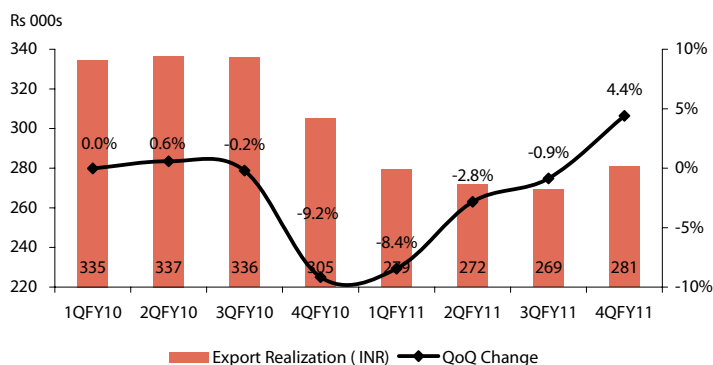
MSIL raised car prices by 1% in January 2011 which amounts to a cumulative hike of 2%-7% during FY11 across segments. The company has taken a further price hike to the extent of 1% during April 2011 across models in the domestic market.

### Exhibit 6: Price Hike to largely offset input cost pressures

OEM (Rs)	Model	Price (as of Jun 2010)	Price (as of Jan 2011)	Increase (FY11)	% Increase (FY11)	Price (as of Oct 2010)	Increase (Q4FY11)	% Increase (Q4FY11)
<b>Cars</b>								
Maruti Suzuki	Alto	307,597	313,042	5,445	1.8	310,937	2,105	0.7
Maruti Suzuki	Ritz	495,817	505,646	9,829	2.0	504,552	1,094	0.2
Maruti Suzuki	Swift	514,399	528,535	14,136	2.7	526,302	2,233	0.4
Maruti Suzuki	Dzire	607,361	627,413	20,052	3.3	624,052	3,361	0.5
Maruti Suzuki	Eco	310,787	332,042	21,255	6.8	328,546	3,496	1.1

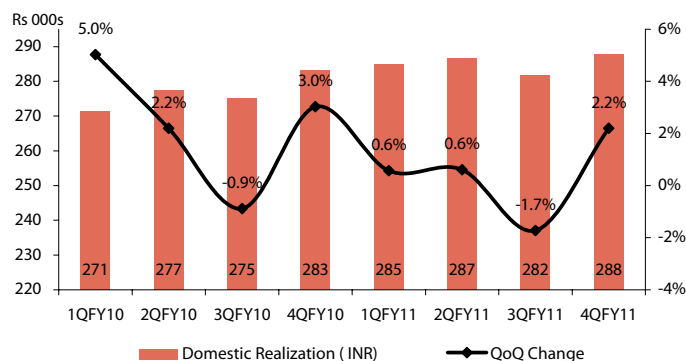
Source: Dealer Interaction, Company, Centrum Research

### Exhibit 7: Exports Realizations



Source: Company, Centrum Research

### Exhibit 8: Domestic Realizations

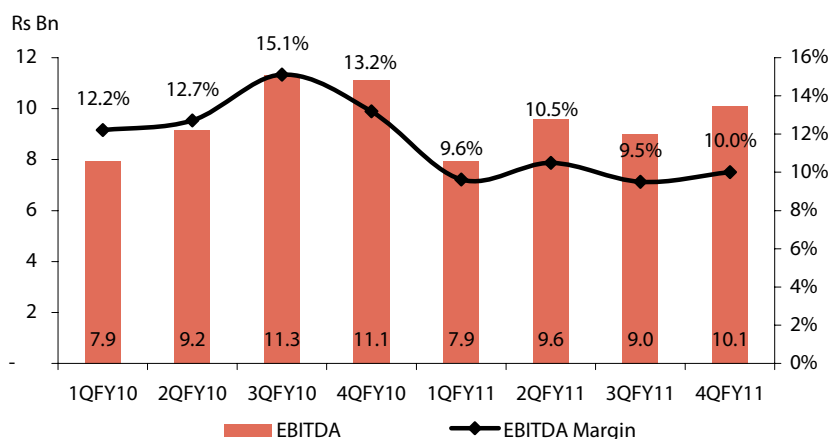


Source: Company, Centrum Research

## Low tax rate boosts adjusted PAT

Adjusted PAT stood at Rs6.6bn (up 0.5% YoY and 17% QoQ) vs our estimate of Rs6.1bn. The variance is explained by the low tax rate because of R&D benefits during the quarter (20.2% vs 28.6% Q1-Q3FY11).

### Exhibit 9: EBITDA Margin trend



Source: Company, Centrum Research

## Valuations and recommendations

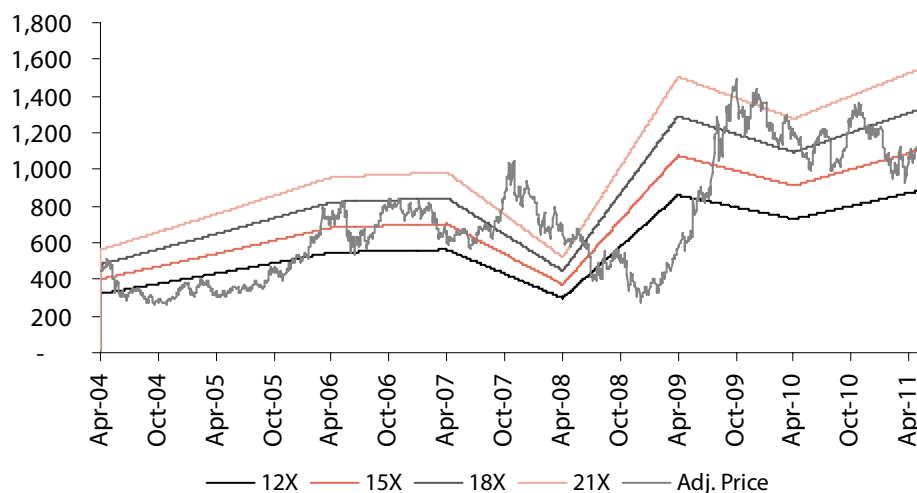
We have lowered our earnings estimates by 4.9% for FY12E and 6.6% for FY13E due to higher-than-expected pressure on EBITDA margins and lower other income. We have assumed tax rate at 27% for both FY12E and FY13E against our earlier estimate of 30%.

### Exhibit 10: Revision in volumes and earnings

(in units)	Earlier Estimates		Revised Estimates		Change (%)	
Volumes	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Domestic	1,272,912	1,456,467	1,276,078	1,446,167	0.2	(0.7)
Exports	169,711	195,168	152,093	170,344	(10.4)	(12.7)
Total Volumes	1,442,623	1,651,635	1,428,171	1,616,510	(1.0)	(2.1)
Financials	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Total operating income	432,046	509,570	431,355	503,344	(0)	(1)
EBITDA	46,584	55,949	44,200	52,577	(5)	(6)
PAT	27,453	32,324	26,118	30,192	(4.9)	(6.6)
EPS	95.0	111.8	90.4	104.5	(4.9)	(6.6)

Source: Centrum Research Estimates

### Exhibit 11: 1-year forward core P/E



Source: Company, Centrum Research

At CMP of Rs1,327, the stock trades at 14.9x FY12E core EPS of Rs71.8 and 12.3x FY13E core EPS of Rs83.9. We continue to remain positive on the stock considering the company's success in maintaining market share despite competition. We reiterate our BUY rating with a revised target price of Rs1,562 (core business valued at 15.3x FY13E earnings + Rs84 as value of investments in subsidiaries + Rs195 value of cash and cash equivalents). We expect MSIL to register revenue growth of 16.5%/16.7% and earnings growth of 14.1%/15.6% for FY12E/FY13E.

## Financials

### Exhibit 12: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Sales Volume	792,167	1,018,314	1,271,007	1,429,081	1,617,512
% Growth	3.6	28.5	24.8	12.4	13.2
<b>Net Sales</b>	<b>208,525</b>	<b>296,231</b>	<b>370,401</b>	<b>431,355</b>	<b>503,344</b>
% Growth	16.8	42.1	25.0	16.5	16.7
Raw Materials	162,650	224,430	287,942	334,908	390,446
Personnel	4,711	5,456	7,036	8,421	9,834
Manufact. & Other Exp.	22,844	26,802	38,778	43,826	50,488
<b>EBITDA</b>	<b>18,320</b>	<b>39,543</b>	<b>36,644</b>	<b>44,200</b>	<b>52,577</b>
EBITDA Margin (%)	8.8	13.3	9.9	10.2	10.4
Deprn. & Amortn	7,065	8,250	10,135	13,108	16,352
<b>EBIT</b>	<b>11,255</b>	<b>31,293</b>	<b>26,509</b>	<b>31,092</b>	<b>36,225</b>
Interest Expenses	510	335	244	105	38
<b>EBT</b>	<b>10,745</b>	<b>30,958</b>	<b>26,265</b>	<b>30,987</b>	<b>36,187</b>
Other Income	6,013	4,967	4,823	4,791	5,171
Extraord. (Income)/Exp.					
<b>PBT</b>	<b>16,758</b>	<b>35,925</b>	<b>31,088</b>	<b>35,778</b>	<b>41,358</b>
Tax-Total	4,571	10,949	8,201	9,660	11,167
Tax Rate (%) - Total	27.3	30.5	26.4	27.0	27.0
<b>Adjusted PAT</b>	<b>12,187</b>	<b>24,976</b>	<b>22,887</b>	<b>26,118</b>	<b>30,192</b>
PAT Margin	5.8	8.4	6.2	6.1	6.0
% Growth	(26.5)	104.9	(8.4)	14.1	15.6
<b>Reported PAT</b>	<b>12,187</b>	<b>24,976</b>	<b>22,887</b>	<b>26,118</b>	<b>30,192</b>
PAT Margin	5.8	8.4	6.2	6.1	6.0
% Growth	(26.1)	104.9	(8.4)	14.1	15.6

Source: Company, Centrum Research Estimates

### Exhibit 13: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
<b>SOURCES OF FUNDS</b>					
Capital	1,445	1,445	1,445	1,445	1,445
Reserves & Surplus	92,004	116,906	137,230	160,292	186,951
<b>Shareholders' Funds</b>	<b>93,449</b>	<b>118,351</b>	<b>138,675</b>	<b>161,737</b>	<b>188,396</b>
<b>Minority Interest</b>	-	-	-	-	-
Secured Loans					
Unsecured Loans	6,989	8,214	3,093	1,593	93
<b>Total Loan Funds</b>	<b>6,989</b>	<b>8,214</b>	<b>3,093</b>	<b>1,593</b>	<b>93</b>
Deferred Tax Liabi. - Net	1,551	1,370	1,644	1,644	1,644
<b>Total</b>	<b>101,989</b>	<b>127,935</b>	<b>143,412</b>	<b>164,974</b>	<b>190,133</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	87,206	104,067	131,535	171,535	206,535
Accumulated Dep.	(46,498)	(53,820)	(63,955)	(77,063)	(93,414)
Capital WIP	8,613	3,876	2,000	2,000	2,000
<b>Investments</b>	<b>31,734</b>	<b>71,766</b>	<b>51,067</b>	<b>46,067</b>	<b>51,067</b>
Inventories	9,023	12,088	14,150	20,765	24,249
Sundry Debtors	9,189	8,099	8,933	13,843	16,166
Cash & Bank Balances	19,390	982	25,085	20,802	22,038
Loans and Advances	17,309	16,555	15,395	23,554	27,505
<b>Total Current Assets, Loans</b>	<b>54,911</b>	<b>37,724</b>	<b>63,563</b>	<b>78,964</b>	<b>89,958</b>
Current Liabilities	30,169	29,394	35,540	47,108	55,010
Provisions	3,807	6,284	5,258	9,422	11,002
<b>Net Current Assets</b>	<b>20,935</b>	<b>2,046</b>	<b>22,765</b>	<b>22,435</b>	<b>23,945</b>
<b>Total assets</b>	<b>101,990</b>	<b>127,935</b>	<b>143,412</b>	<b>164,974</b>	<b>190,133</b>

Source: Company, Centrum Research Estimates

### Exhibit 14: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Net cash from operations	17,038	33,526	36,680	35,273	46,269
Net cash from investment	4,016	(53,085)	(4,893)	(35,000)	(40,000)
Net CF from financing	(4,904)	1,151	(7,684)	(4,556)	(5,032)
<b>Net cash increase/(dec)</b>	<b>16,150</b>	<b>(18,408)</b>	<b>24,103</b>	<b>(4,283)</b>	<b>1,237</b>

Source: Company, Centrum Research Estimates

### Exhibit 15: Key Ratios

Y/E March	FY09	FY10	FY11	FY12E	FY13E
O/s Shares	289	289	289	289	289
Fully Diluted Shares	289	289	289	289	289
<b>Per share (Rs)</b>					
Basic EPS	42.2	86.4	79.2	90.4	104.5
Fully diluted EPS	42.2	86.4	79.2	90.4	104.5
Book value	323.4	409.5	479.8	559.6	651.9
<b>Valuation (x)</b>					
P/E	18.4	15.3	16.8	14.7	12.7
P/BV	2.4	3.2	2.8	2.4	2.0
EV/EBITDA	10.0	8.2	8.6	7.3	6.0
EV/Sales	0.9	1.1	0.9	0.8	0.6
<b>Margin Ratio (%)</b>					
EBITDA Margin	8.8	13.3	9.9	10.2	10.4
EBIT Margin	5.5	10.8	7.3	7.4	7.4
PAT Margin	6.0	8.6	6.3	6.2	6.1
<b>Return Ratio (%)</b>					
ROE	13.7	23.6	17.8	17.4	17.2
ROcE	17.8	31.9	23.4	23.5	23.5
<b>Other Ratios</b>					
Interest coverage ratio (%)	22.1	93.4	108.6	294.9	954.9
Debt-equity (x)	0.1	0.1	0.0	0.0	0.0
Liquidity ratio (x)	1.6	1.1	1.6	1.4	1.4
Other income contrib. (%)	35.9	13.8	15.5	13.4	12.5
Dividend Payout (%)	8.3	6.9	10.0	10.0	10.0
Asset TO (x)	2.2	2.4	2.6	2.6	2.6
WC Turnover (days)	2.4	1.2	(2.1)	1.3	1.3

Source: Company, Centrum Research Estimates

## Appendix A

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