

July 26, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs1,178	Rs 1,400
EPS change FY12E/13E (%)	(14) / (18)
Target Price change (%)	(20)
Nifty	5,575
Sensex	18,518

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	(11)	(9)	(1)
Rel. to Nifty	3	(6)	(7)	(4)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	MSIL@IN
Equity Capital (Rs mn)	1445
Face Value(Rs)	5
No of shares o/s (mn)	289
52 Week H/L	1,600/1,087
Market Cap (Rs bn/USD mn)	340/7,688
Daily Avg Volume (No of sh)	102752
Daily Avg Turnover (US\$m)	2.8

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	54.2	54.2	54.2
FII/NRI	18.8	19.3	21.1
Institutions	18.0	17.9	17.0
Private Corp	6.3	5.9	5.3
Public	2.7	2.7	2.5

Source: Capitaline

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- Strong operational performance (EBIDTA at Rs 8.1bn vs est. of Rs 7.4bn) results in PAT of Rs 5.5bn (est. Rs 4.1bn). Key highlight was higher ASP (up 4% YoY vs est. of 1% decline)
- Demand outlook to remain subdued for sometime given another rate increase. Expect demand to pick from festive season. Inventory in the system at ~4 to 5 weeks
- Lower our FY12/FY13 volumes by 6.3%/6.7%. Factoring in prevailing forex rates as Yen exposure is hedged only for 2QFY12
- Lower FY12/FY13 EPS est. by 13.5%/18% to Rs 88.6/100. Lower our TP to Rs 1,400 (down 20%), retain ACCUMULATE rating. Key upside risk arises from favorable forex movement

Net Sales – Significantly above est.

Net sales at Rs 85.3bn was significantly above our est. of Rs 81.2bn primarily driven by strong improvement in average realizations. Average selling price stood at Rs 295,529 (4% YoY, 3% QoQ) ~5% above our est. Lower than anticipated discounts and improvement in product mix (higher contribution from diesel models) led improvement in ASPs.

Product mix %	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
M-800	2.4	1.7	2.1	2.2	2.3
Omni, Versa	11.8	13.3	13.2	12.2	14.5
Alto, Wagon -R, Zen, Swift	60.2	63.4	65.3	64.9	60.8
Esteem, SX4, Dzire	10.2	10.0	9.7	11.3	10.9
Gypsy, Vitara	1.1	0.3	0.3	0.3	0.5
Exports	14.3	11.4	9.4	9.0	11.0
Units sold (nos)	283,324	313,654	330,687	343,420	281,526
YoY change	25.0	27.4	28.2	19.5	(0.6)

Source: SIAM, Emkay research

EBIDTA margins also surprised positively

EBIDTA at Rs 8.1bn (~9.5% of sales) was ~10% above our est. of Rs 7.4bn (~9.1% of sales). Apart from strong topline, lower royalty payment (due to favorable currency) and lower S&D expense benefited margins. Royalty expense of Rs 4bn (~4.8% of sales) was lower than our est. of 5.2%. S&D expense of Rs 2bn (vs our est. of Rs 2.5bn) benefited from lower advertisement spend. RM to sales at 80.4% was marginally higher than our est. of 79.5%. Staff costs at Rs 1.8bn (~2.1% of sales) was in line with our est.

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
FY10	293,253	36,695	12.5	25,106	86.9	116.9	23.7	13.6	7.5	2.9
FY11P	370,771	34,859	9.4	23,699	82.0	(5.6)	18.4	14.4	7.6	2.4
FY12E	404,499	37,080	9.2	25,605	88.6	8.0	16.9	13.3	7.3	2.1
FY13E	471,508	42,301	9.0	28,906	100.0	12.9	16.4	11.8	6.0	1.8

Source: Company, Emkay Research

Quarterly Summary

Rs mn	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	YoY (%)	QoQ (%)
Revenue	82,315	91,473	94,945	100,922	85,293	3.6	(15.5)
Expenditure	74,222	81,727	85,587	90,825	77,149	3.9	(15.1)
as % of sales	90.2	89.3	90.1	90.0	90.5		
Consumption of RM	64,415	70,443	74,455	78,629	66,917	3.9	(14.9)
as % of sales	78.3	77.0	78.4	77.9	78.5		
Employee Cost	1,780	1,738	1,985	1,534	1,794	0.8	16.9
as % of sales	2.2	1.9	2.1	1.5	2.1		
Other expenditure	8,027	9,545	9,147	10,662	8,438	5.1	(20.9)
as % of sales	9.8	10.4	9.6	10.6	9.9		
EBITDA	8,094	9,746	9,358	10,097	8,144	0.6	(19.3)
Depreciation	2,417	2,382	2,369	2,967	2,425	0.3	(18.3)
EBIT	5,677	7,364	6,988	7,131	5,719	0.8	(19.8)
Other Income	1,002	1,340	1,283	1,199	1,801	79.7	50.2
Interest	80	97	4	64	58		
PBT	6,599	8,607	8,268	8,266	7,463	13.1	(9.7)
Total Tax	1,971	2,575	2,276	1,667	1,970	(0.1)	18.2
Adjusted PAT	4,627	6,032	5,992	6,599	5,492	18.7	(16.8)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-		
Adj. PAT after MI	4,627	6,032	5,992	6,599	5,492	18.7	(16.8)
Extra ordinary items	(457)	(219)	-	-	-		
Reported PAT	4,171	5,812	5,992	6,599	5,492	31.7	(16.8)
Reported EPS	14.4	20.1	20.7	22.8	19.0	31.7	(16.8)

Margins (%)						(bps)	(bps)
EBIDTA	9.8	10.7	9.9	10.0	9.5	(28)	(46)
EBIT	6.9	8.1	7.4	7.1	6.7	(19)	(36)
EBT	8.0	9.4	8.7	8.2	8.7	73	56
PAT	5.6	6.6	6.3	6.5	6.4	82	(10)
Effective Tax rate	29.9	29.9	27.5	20.2	26.4	(347)	623

Per Vehicle (Rs)						YoY (%)	QoQ (%)
Revenue	290,534	291,636	287,113	293,941	302,967	4.3	3.1
Raw Material	227,356	224,589	225,152	229,012	237,695	4.5	3.8
Staff Cost	6,281	5,542	6,001	4,468	6,371	1.4	42.6
Other Expense	28,331	30,432	27,661	31,053	29,973	5.8	(3.5)
EBITDA	28,567	31,073	28,298	29,409	28,928	1.3	(1.6)
PAT	16,333	19,231	18,119	19,219	19,509	19.4	1.5

Source: Company. Emkay Research

APAT at Rs 5.5bn vs our est. of Rs 4.1bn

Net profits at Rs 5.5bn benefited from higher other income and lower depreciation expense in addition to strong operating performance. Other income at Rs 1.8bn (our est. of Rs 1.1bn) was higher due to capital gains of Rs 0.4bn on certain treasury investments and higher yields on current investments. Depreciation expense at Rs 2.4bn was also lower than our est. of Rs 2.8bn. Tax rate of ~26.4% was in line with our est.

Revision in Estimates

We lower our volume estimates by ~6.3%/6.7% in FY12/13 on weaker than anticipated demand on rising macro headwinds. Our net sales estimates are revised downwards by 5%/6% in FY12/13. We lower our EBITDA margin estimates by 70bps/110bps to 9.2%/9% in FY12/13 due to unfavorable forex movement. Given the strong appreciation in Yen, we lower our Yen/Rs est. from 1.9/1.9 to 1.8/1.78 for FY12/13. Our sensitivity analysis suggests that for every ~1% decline in Yen/Rs cross currency rate (~1.78 vs 1.8), earnings are lowered by ~2.5% (~25 bps decline in EBITDA margins). Our assumption of 1.8 Yen/Rs for FY12 is in line with average rate for YTD FY12 but aggressive if compared with the current spot rate of 1.75 Yen/Rs. We lower our net profits by 13.5%/18% to Rs 25.6bn/28.9bn in FY12/13.

Rs mn	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	1,438,712	1,348,637	(6.3)	1,666,033	1,554,755	(6.7)
Sales	427,134	404,499	(5.3)	500,974	471,508	(5.9)
EBIDTA	42,431	37,080	(12.6)	50,742	42,301	(16.6)
EBIDTA margin (%)	9.9	9.2		10.1	9.0	
Net Profits	29,593	25,605	(13.5)	35,241	28,906	(18.0)
EPS	102.4	88.6	(13.5)	121.9	100.0	(18.0)

Source: Emkay Research

Valuations and View

At CMP of Rs 1,178 the stock trades at PER of 13.3x and 11.8x, EV/EBIDTA of 7.3x and 6.0x our FY12 and FY13 estimates respectively. We lower our target price to Rs 1,400 and retain our ACCUMULATE rating on the stock. Our revised TP of Rs 1,400 implies 15.8x/14x PER and 9.1x/7.5x EV/EBIDTA on our FY12/13 estimates. We continue to maintain that we are in a demand slowdown cycle and demand will bounce back with vigor as is evident in FY13 volume growth assumption of 15%. Another upside risk arises from favorable currency movement given the high sensitivity to earnings.

Key extracts from the con call

- Slowdown in demand is broad based with flat growth in top 10 cities and decline in the next ten cities. Increase in interest rates and fuel prices affecting sentiments negatively. Expect demand to remain subdued for sometime given another 50 bps increase in rates by RBI today. Expect demand to make a comeback from festive season as macro factors (employment, wage increments, etc) continue to remain reasonable.
- Customer profile has also shifted with a higher share of first time buyers at ~47%. Additional car buyers have declined 300 bps to 28% and replacement buyers constituted the balance.
- Direct exposure to Yen has been hedged for the 1st and 2nd quarter of FY12. Company is yet to decide on whether to hedge Yen exposure for Q3/Q4. Export exposure to Euro has been hedged and currently the hedge is in the money.
- Maintains the target of reduction in indirect Yen exposure through vendors by 2-3% every year (~15% currently)
- Capacity expansion in Manesar plant is on track. Expect uptick in monthly run rate from September onwards.
- Company expects commodity costs to remain stable for FY12.
- Demand for diesel models has seen a sharp jump (~80% of model sales vs ~60% last qtr). Expect diesel engine capacity to reach 290,000 units (currently 250,000 units) in next few months .
- New Swift to be launched next month has already received ~30,000 orders. Expect a monthly run rate of ~15,000 – 17,000 units.
- Inventory in the system is marginally higher at 4-5 weeks of sales as compared to 3-4 weeks normally.
- Geographical diversification in exports is on track with Europe contributing only ~33% of exports vs ~50% in FY11.
- Capex guidance of Rs 40bn/30bn for FY12/13.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	293,253	370,771	404,499	471,508
Growth (%)	42.0	26.4	9.1	16.6
Expenditure	256,558	335,913	367,419	429,207
Materials Consumed	221,998	287,753	315,957	369,445
Employee Cost	5,456	7,036	8,182	9,513
Other Exp	29,104	41,124	43,280	50,250
EBITDA	36,695	34,859	37,080	42,301
Growth (%)	133.3	(5.0)	6.4	14.1
EBITDA margin (%)	12.5	9.4	9.2	9.0
Depreciation	8,250	10,135	10,809	12,269
EBIT	28,445	24,724	26,271	30,032
EBIT margin (%)	9.7	6.7	6.5	6.4
Other Income	7,945	7,636	9,104	9,866
Interest expenses	335	244	300	300
PBT	36,055	32,115	35,075	39,598
Tax	10,949	8,417	9,470	10,691
Effective tax rate (%)	30.4	26.2	27.0	27.0
Adjusted PAT	25,106	23,699	25,605	28,906
Growth (%)	116.9	(5.6)	8.0	12.9
Net Margin (%)	8.6	6.4	6.3	6.1
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JVs/Ass/MI	25,106	23,699	25,605	28,906
E/O items	(130)	(812)	-	-
Reported PAT	24,976	22,887	25,605	28,906
Growth (%)	116.9	(5.6)	8.0	12.9

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	28,110	24,480	25,971	29,732
Depreciation	8,250	10,135	10,809	12,269
Interest Provided	335	244	300	300
Other Non-Cash items	2,647	-	-	-
Chg in working cap	481	3,384	(10,273)	(970)
Tax paid	(10,949)	(8,417)	(9,470)	(10,691)
Operating Cashflow	28,874	29,826	17,337	30,640
Capital expenditure	(12,124)	(25,592)	(29,532)	(20,000)
Free Cash Flow	16,750	4,234	(12,195)	10,640
Other income	7,945	6,824	9,104	9,866
Investments	(43,654)	20,699	(21,500)	(10,500)
Investing Cashflow	(35,709)	27,523	(12,396)	(634)
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	1,225	-	-	-
Interest Paid	(335)	(244)	(300)	(300)
Dividend paid (incl tax)	(2,021)	(2,221)	(2,389)	(2,697)
Income from investments	-	-	-	-
Others	-	922	-	-
Financing Cashflow	551	(1,543)	(2,689)	(2,997)
Net chg in cash	(18,408)	30,213	(27,280)	7,009
Opening cash position	19,390	982	31,195	3,915
Closing cash position	982	31,195	3,915	10,924

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	1,445	1,445	1,445	1,445
Reserves & surplus	116,906	138,219	161,435	187,645
Net worth	-	-	-	-
Minority Interest	118,351	139,664	162,880	189,090
Secured Loans	265	265	265	265
Unsecured Loans	7,949	7,949	7,949	7,949
Loan Funds	8,214	8,214	8,214	8,214
Net deferred tax liability	1,370	1,644	1,644	1,644
Total Liabilities	127,935	149,522	172,738	198,948
Gross Block	104,067	126,067	148,067	168,067
Less: Depreciation	53,820	63,955	74,764	87,033
Net block	50,247	62,112	73,303	81,034
Capital work in progress	3,876	7,468	15,000	15,000
Investment	71,766	51,067	72,567	83,067
Current Assets	37,724	69,673	69,071	86,669
Inventories	12,088	14,150	16,485	19,234
Sundry debtors	8,099	8,933	16,485	19,234
Cash & bank balance	982	31,195	3,915	10,924
Loans & advances	15,707	13,722	30,514	35,604
Other current assets	848	1,673	1,673	1,673
Current lia & Prov	35,678	40,798	57,203	66,823
Current liabilities	29,394	35,540	51,439	60,089
Provisions	6,284	5,258	5,764	6,734
Net current assets	2,046	28,875	11,869	19,847
Misc. exp	-	-	-	-
Total Assets	127,935	149,522	172,739	198,948

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	12.5	9.4	9.2	9.0
Net Margin	8.6	6.4	6.3	6.1
ROCE	31.7	23.3	22.0	21.5
ROE	23.7	18.4	16.9	16.4
RoIC	60.8	44.5	37.3	35.1
Per Share Data (Rs)				
EPS	86.9	82.0	88.6	100.0
CEPS	115.4	117.1	126.0	142.5
BVPS	409.5	483.3	563.6	654.3
DPS	6.0	6.6	7.1	8.0
Valuations (x)				
PER	13.6	14.4	13.3	11.8
P/CEPS	10.2	10.1	9.3	8.3
P/BV	2.9	2.4	2.1	1.8
EV / Sales	0.9	0.7	0.7	0.5
EV / EBITDA	7.5	7.6	7.3	6.0
Dividend Yield (%)	0.5	0.6	0.6	0.7
Gearing Ratio (x)				
Net Debt/ Equity	(0.5)	(0.5)	(0.4)	(0.4)
Net Debt/EBITDA	(1.7)	(2.0)	(1.7)	(1.9)
Working Cap Cycle (days)	(11.5)	(12.3)	(21.9)	(21.9)

Recommendation History: Maruti Suzuki India – MSIL IN

Date	Reports	Reco	CMP	Target
25/04/2011	Maruti Suzuki Q4FY11 Result Update	Accumulate	1,327	1,760
08/04/2011	Maruti Suzuki Management Meet Update	Accumulate	1,279	1,520
31/01/2011	Maruti Suzuki Q3FY11 Result Update	Accumulate	1,234	1,470
01/11/2010	Maruti Q2FY11 Result Update	Hold	1,551	1,600

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/07/2011	Ashok Leyland Company Update	Accumulate	52	57
21/07/2011	Hero Honda Q1FY12 Result Update	Hold	1,789	1,840
20/07/2011	Ashok Leyland Q1FY12 Result Update	Accumulate	50	57
19/07/2011	Bajaj Auto Q1FY12 Result Concall Update	Buy	1,417	1,680

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