

## MARUTI SUZUKI INDIA

BUY  
CMP Rs1,178  
TP Rs1,594

26 July 2011

### Operationally Inline; Other Income Boosts Profits

Maruti Suzuki (MSIL) Q1FY12 operational results met our expectations, however net profits surpassed it with higher other income and lower depreciation charges. Operating profits at Rs8.1bn met our estimates of Rs8bn. The positive surprise in results was due to other income which was 50% higher than estimate and an 18% QoQ decline in depreciation charge. Net profits at Rs5.5bn were ahead of our estimate of Rs4.4bn.

**Volumes decline after a gap of nine quarters:** After an exhilarating 20% plus growth in FY10-11, domestic car industry hit the brakes in Q1. Industry grew at 7.2% as successive fuel price and interest rate hikes dampened sentiments. MSIL was further affected due to a 10 day strike at its Manesar plant. MSIL marketshare contracted 270bps QoQ due to its dominant position in most affected segment of entry level cars. Exports continued to slide, down 23.7% YoY to 31k units. MSIL volumes declined 0.6% YoY to 282k units.

**Diesel variants get a boost:** The widening price differential between petrol and diesel led to incremental demand for diesel variants thus improving realisations. This alongwith a sequential decline in discounts offered led to a 2.9% QoQ boost to realisations. Revenues at Rs85.3bn were 1.7% higher than estimate.

**Margins inline:** Selling and distribution expenses during the quarter were lower due to reduced ad spend. Other expenses and royalty too declined on a sequential basis. However, raw material costs rose due to hike in steel and tyre prices. Margins contracted 8bps YoY to 9.5% and were inline with estimates.

**Profits 25% higher than estimate:** Other income during the quarter increased 80% YoY to Rs1.8bn. Other income was inflated due a Rs410mn gain on long term investments. Depreciation charges moderated QoQ, sans the one time hit taken in Q4FY11.

**Outlook:** The interest rate hikes and weak macroeconomic environment would continue to take a toll on volumes in FY12 with some easing expected in FY13. We maintain our volume growth estimate at 7.9% and 14.5% in FY12 and FY13 respectively. With no significant deviation on the operational front we maintain FY12 and FY13 earnings estimate at Rs86.9 and Rs106.2 respectively.

### VALUATIONS AND RECOMMENDATION

Due to near term concerns, the stock is currently trading at an attractive valuation of 11.1x FY13E earnings. Although performance is expected to remain subdued in near term, we remain positive on the company owing to its strong product portfolio and distribution reach. 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	FY11P	FY12E	FY13E
Net Sales	203,583	289,585	361,282	403,887	479,340
YoY Gr. (%)	14.0	42.2	24.8	11.8	18.7
EBITDA	18,445	39,651	36,644	40,468	48,795
EBITDA Marg. (%)	8.9	13.4	9.9	9.8	9.9
Adjusted Net Profit	12,187	24,976	22,886	25,097	30,696
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	106.2
ROCE (%)	17.4	31.3	22.9	22.2	23.4
RoE (%)	13.7	23.6	17.8	16.8	17.6
PER (x)	27.9	13.6	14.9	13.6	11.1
EV/Net sales (x)	1.5	1.0	0.8	0.7	0.5
EV/EBITDA (x)	16.3	7.1	7.4	6.8	5.0

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#### QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Dec-10	Mar-11	Jun-11
Net Sales	94,945	100,922	85,293
YoY Gr. (%)	26.5	19.8	3.6
EBIDTA	9,018	10,097	8,144
EBIDTA Mar %	9.5	10.0	9.5
Adj. Net Profit	5,652	6,599	5,492
YoY Gr. (%)	(17.8)	0.5	18.0

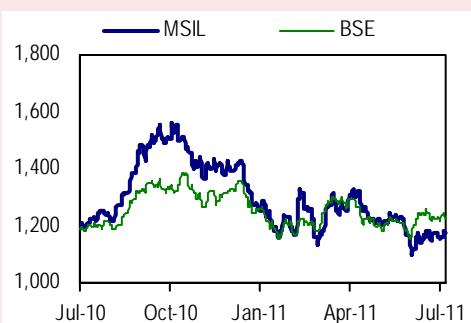
#### STOCK DATA

Market Cap	Rs340.4bn
Book Value per share	Rs480.1
Eq Shares O/S (F.V. Rs5)	289mn
Free Float	45.8%
Avg Traded Value (6 mnths)	Rs513mn
52 week High/Low	Rs1600/1087
Bloomberg Code	MSIL IN
Reuters Code	MRTI.BO

#### PERFORMANCE (%)

	1M	3M	12M
Absolute	5.1	(9.5)	(1.1)
Relative	3.5	(4.2)	(3.9)

#### RELATIVE PERFORMANCE



**Q1FY12 Performance and Concall Highlights**

- In Q1FY12, MSIL volumes declined 0.6% YoY to 282k units. This is the first decline in nine quarters. Domestic car sales were up 1% as against an industry growth of 7.6% losing 270bps marketshare QoQ. In addition to a slow down in offtake, MSIL's volumes were affected due to a strike at its Manesar facility impacting dispatches of models such as Swift and Dzire.
- The B segment (Alto, WagonR, Swift, Ritz etc) was flat YoY at 171k units. While Alto and WagonR continued to witness growth, fringe models like Estilo and AStar declined. Swift sales too were lower owing to the strike. The C segment (Dzire & SX4) sales were 6.1% higher due to incremental volumes from newly launched SX4 diesel and demand for Dzire. The demand for diesel variants increased owing to the high price differential between petrol and diesel and enriching product mix. Diesel variants now account for 21% of domestic dispatches.
- Export volumes declined by 23% YoY to 31k units for the quarter primarily due to sluggish export demand in key export markets. Export revenues during the quarter were Rs8.7bn. Contribution of Europe in exports has slumped from 80% in FY10 to 33% in the quarter.

**Higher operating expenses**

- Raw material expenses during the quarter increased due to higher steel and rubber prices in addition to the appreciation in the Yen. Raw material cost per vehicle increased 3.8% sequentially to Rs238k/unit and is expected to remain stable at current levels.
- Other expenditure was lower due to reduced advertisement spend and lower ocean freight. However, advertisement expenses are expected to increase with the launch of new Swift. Royalty as a percentage of sales has come down to 4.7% in the current quarter from 5.1% in FY11 due to lower export volumes and change in product mix.

**Higher other income and lower depreciation:**

- The other income in Q1FY12 rose 79.7% YoY (50.2% QoQ) to Rs1.8bn and significantly higher than our estimate of Rs1.2bn. It includes Rs410mn gain on sale of Fixed Maturity Plan investments.
- The depreciation in Q4FY11 included a one time charge Rs500mn on account of change in accounting policy related to tooling and dies given to vendors. Resultant, depreciation during the quarter declined 18.3% QoQ to Rs2.4bn.

**Outlook**

- The Management indicated that while inquiries continue to remain high, conversion rates have lowered owing to the macroeconomic headwinds. It is optimistic of a demand pick up in the ensuing festive season. Stock with dealers is currently at 4-5 weeks as compared to a normal inventory of 3-4 weeks.
- The company would be commission a 250k per annum line at Manesar by Sep'11 followed by another line of similar capacity by FY12 end or early FY13. Capacity for diesel variants is expected to increase from 250k currently to 290k per annum. The management has guided for a capex of Rs40bn and Rs30bn in FY112 and FY13 respectively.
- MSIL will be launching new Swift in August'2011 from its Manesar plant. Company has already received 30k orders for the new swift and expects to maintain a run-rate of 15-17k units per month. Beside this, it has planned for other launches like MPV RIII etc over next 6-8 months.
- The company has hedged its Yen exposure till Q2FY12, post which the company is vulnerable to exchange fluctuation. Management expects Yen to depreciate and would look to cover its exposure at an opportune time.

**Variance to PINC Estimate**

(Rs mn)	Actual	Estimate	Var (%)	Comments
Net Sales	85,293	83,896	1.7	Lower discounts & higher share of diesel cars boosted realisations
EBITDA	8,144	8,020	1.5	
EBITDA Margin (%)	9.5	9.6	0 bps	Margins in line with estimates
Adjusted PAT	5,492	4,377	25.5	Higher other income and lower depreciation led to deviation

**Financial Table**

(Rs mn)	Jun-11	Jun-10	YoY(%)	Mar-11	QoQ(%)	FY11	FY10	YoY(%)
<b>Net Sales</b>	<b>85,293</b>	<b>82,315</b>	<b>3.6</b>	<b>100,922</b>	<b>(15.5)</b>	<b>369,654</b>	<b>296,230</b>	<b>24.8</b>
<b>EBITDA</b>	<b>8,144</b>	<b>7,925</b>	<b>2.8</b>	<b>10,097</b>	<b>(19.3)</b>	<b>36,643</b>	<b>39,543</b>	<b>(7.3)</b>
EBITDA Margins %	9.5	9.6	-10 bps	10.0	-50 bps	9.9	13.3	-340 bps
Other Income	1,801	1,002	79.7	1,199	50.2	4,823	4,968	(2.9)
Interest	58	80	(27.9)	64	(9.4)	244	335	(27.1)
Depreciation	2,425	2,417	0.3	2,967	(18.3)	10,135	8,250	22.8
<b>PBT</b>	<b>7,463</b>	<b>6,430</b>	<b>16.1</b>	<b>8,266</b>	<b>(9.7)</b>	<b>31,087</b>	<b>35,925</b>	<b>(13.5)</b>
Tax	1,970	1,777	10.9	1,667	18.2	8,201	10,949	(25.1)
% PBT	26.4	27.6	-120 bps	20.2	620 bps	26.4	30.5	-410 bps
<b>PAT</b>	<b>5,492</b>	<b>4,654</b>	<b>18.0</b>	<b>6,599</b>	<b>(16.8)</b>	<b>22,886</b>	<b>24,976</b>	<b>(8.4)</b>
NPM (%)	6.4	5.7	80 bps	6.5	-10 bps	6.2	8.4	-220 bps
<b>EPS</b>	<b>19.0</b>	<b>16.1</b>	<b>18.0</b>	<b>22.8</b>	<b>(16.8)</b>	<b>79.2</b>	<b>86.4</b>	<b>(8.4)</b>

**Vehicle sales**

(Unit)	Jun-11	Jun-10	YoY(%)	Mar-11	QoQ(%)	FY11	FY10	YoY(%)
<b>Total Sales</b>	<b>281,526</b>	<b>283,324</b>	<b>(0.6)</b>	<b>343,340</b>	<b>(18.0)</b>	<b>1,271,005</b>	<b>1,018,367</b>	<b>24.8</b>
Domestic	250,683	242,887	3.2	312,389	(19.8)	1,132,739	870,792	30.1
Exports	30,843	40,437	(23.7)	30,951	(0.3)	138,266	147,575	(6.3)
<b>Total Cars</b>	<b>238,727</b>	<b>246,340</b>	<b>(3.1)</b>	<b>300,047</b>	<b>(20.4)</b>	<b>1,102,473</b>	<b>911,689</b>	<b>20.9</b>
Domestic	208,432	206,377	1.0	269,524	(22.7)	966,447	765,533	26.2
Exports	30,295	39,963	(24.2)	30,523	(0.7)	136,026	146,156	(6.9)
<b>Total MUVs</b>	<b>42,799</b>	<b>36,984</b>	<b>15.7</b>	<b>43,293</b>	<b>(1.1)</b>	<b>168,532</b>	<b>106,678</b>	<b>58.0</b>
Domestic	42,251	36,510	15.7	42,865	(1.4)	166,292	105,259	58.0
Exports	548	474	15.6	428	28.0	2,240	1,419	57.9

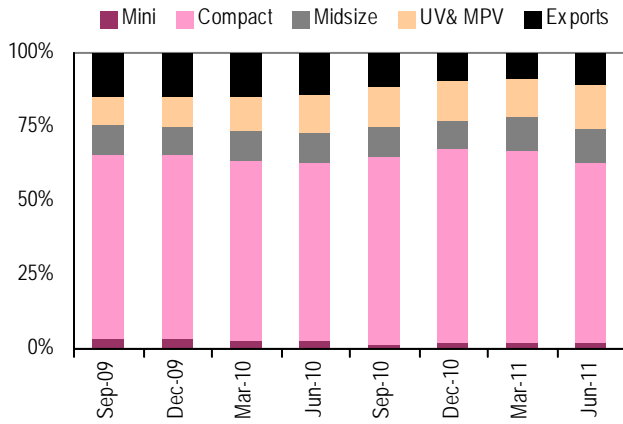
**(%) of Sales**

(%)	Jun-11	Jun-10	YoY (bps)	Mar-11	QoQ (bps)	FY11	FY10	YoY (bps)
Material cost	78.5	77.9	60	77.9	50	77.9	75.7	220
Staff cost	2.1	2.0	10	1.5	60	1.9	1.8	10
Other Expenses	9.9	10.5	(60)	10.6	(70)	10.3	9.1	110
<b>Operating profit</b>	<b>9.5</b>	<b>9.6</b>	<b>(10)</b>	<b>10.0</b>	<b>(80)</b>	<b>9.9</b>	<b>13.3</b>	<b>(340)</b>

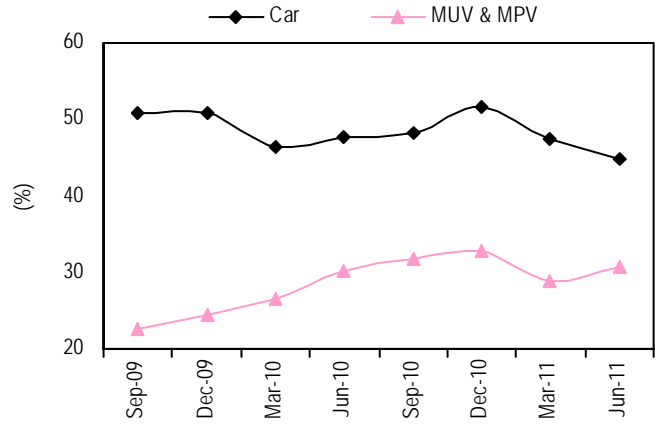
**Per Vehicle**

(Rs)	Jun-11	Jun-10	YoY(%)	Mar-11	QoQ(%)	FY11	FY10	YoY(%)
Realisations	302,967	290,534	4.3	293,941	3.1	290,836	290,887	(0.0)
Material cost	237,695	226,251	5.1	229,012	3.8	226,547	220,092	2.9
Employee cost	6,371	5,681	12.1	4,468	42.6	5,536	5,358	3.3
Other Expenses	29,973	30,630	(2.1)	31,053	(3.5)	29,923	26,608	12.5
<b>EBITDA</b>	<b>28,928</b>	<b>27,972</b>	<b>3.4</b>	<b>29,409</b>	<b>(1.6)</b>	<b>28,830</b>	<b>38,830</b>	<b>(25.8)</b>

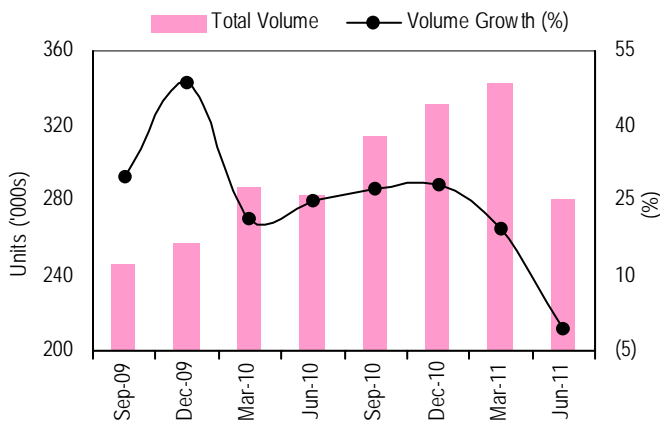
Product Mix



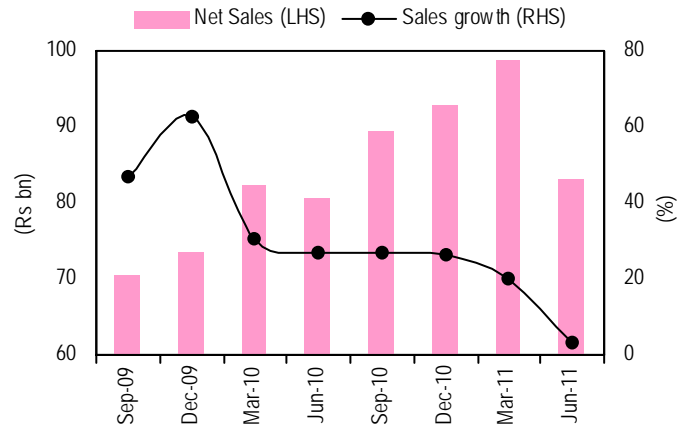
Domestic Marketshare



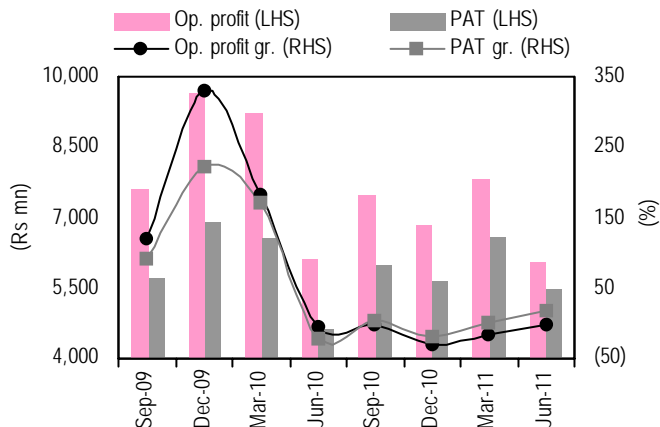
Total Sales Volume



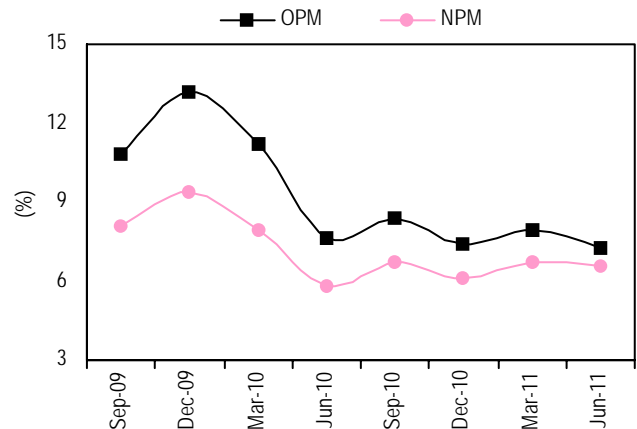
Net Sales



Net Profits



Profitability Trend



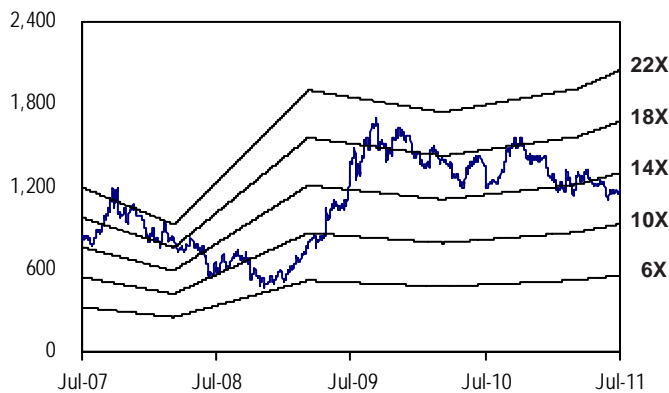
Income Statement	FY09	FY10	FY11P	FY12E	FY13E
Net sales	203,583	289,585	361,282	403,887	479,340
Growth (%)	14.0	42.2	24.8	11.8	18.7
Operating profit	15,345	33,140	27,525	29,835	36,379
Other operating income	3,100	6,511	9,119	10,633	12,416
EBITDA	18,445	39,651	36,644	40,468	48,795
Growth (%)	(32.6)	115.0	(7.6)	10.4	20.6
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	34,345	41,681
Interest paid	(510)	(335)	(244)	(200)	(200)
PBT (before E/o items)	16,758	35,925	31,087	34,145	41,481
Tax provision	(4,571)	(10,949)	(8,201)	(9,048)	(10,785)
E/o Income / (loss)	-	-	-	-	-
Net profit	12,187	24,976	22,886	25,097	30,696
Adjusted net profit	12,187	24,976	22,886	25,097	30,696
Growth (%)	(29.6)	104.9	(8.4)	9.7	22.3
Diluted EPS (Rs)	42.2	86.4	79.2	86.9	106.2
Diluted EPS Growth (%)	(29.6)	104.9	(8.4)	9.7	22.3

Cash Flow Statement	FY09	FY10	FY11P	FY12E	FY13E
Pre-tax profit	16,758	35,925	31,087	34,145	41,481
Depreciation	6,610	7,322	10,135	11,701	13,571
Total tax paid	(4,310)	(10,007)	(9,093)	(8,801)	(10,461)
Chg in working capital	(2,031)	(1,480)	4,044	(2,824)	1,735
Other operating activities	(1,709)	1,947	-	-	-
Cash flow from oper. (a)	15,318	33,707	36,173	34,221	46,326
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	(3,311)	34,151
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	(7,238)	29,719

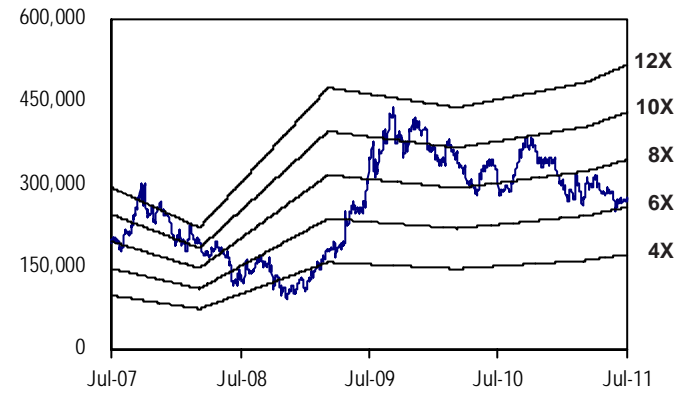
Balance Sheet	FY09	FY10	FY11P	FY12E	FY13E
Equity capital	1,445	1,445	1,445	1,445	1,445
Reserves & surplus	92,004	116,906	137,265	159,330	186,657
Shareholders' funds	93,449	118,351	138,710	160,775	188,102
Preference Share Capital	-	-	-	-	-
Total Debt	6,989	8,214	3,093	1,693	293
Capital Employed	100,438	126,565	141,803	162,468	188,395
Net fixed assets	49,321	54,123	69,580	95,411	94,015
Cash & Cash Eq.	47,297	68,912	72,351	65,113	94,832
Net other Current Assets	1,545	1,064	(2,320)	(98)	(2,344)
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	162,468	188,395

Key Ratios	FY09	FY10	FY11P	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	0.6	0.8	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	1.9
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)	1.5	1.0	0.8	0.7	0.5
EV/EBITDA (x)	16.3	7.1	7.4	6.8	5.0
PER (x)	27.9	13.6	14.9	13.6	11.1
Price/Book (x)	3.6	2.9	2.5	2.1	1.8

P/E Band



EV/EBITDA



**T E A M**

**EQUITY DESK**

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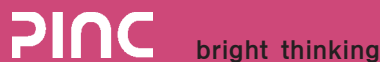
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