

MARUTI SUZUKI INDIA

HOLD
CMP Rs1,105
TP Rs1,112

Pressure On Multiple Fronts; Downgrade To HOLD

After a scorching volume growth in FY11, Maruti Suzuki (MSIL) has been restrained on multiple fronts in the recent months. The rising fuel costs and interest rates took the wind off the sails of the domestic passenger vehicle industry. Agitating workers at the Manesar facility have taken the sheen out of the high profile *New Swift* launch. Competition is intensifying with new launches such as the Honda *Brio* and impending Hyundai *Eon* at aggressive pricing. Adding to the woes, the 16% appreciation of the Japanese Yen (JPY) in the last six months will have a severe impact on profitability as hedges expire in Q2FY12. Subsequently we reduce our FY12 and FY13 earnings estimate by 29% and 23% respectively and downgrade our rating on the stock to a 'HOLD'.

Manesar labour issue yet to be resolved: Even as the *New Swift* waitlist crosses the 100k mark, the 30 day worker agitation at the Manesar facility is yet to be resolved. Although production of Swift has been brought to normal levels through hiring of new employees, the ground situation is far from normal.

Decreasing industry growth; increasing competition: The domestic consumer sentiment has dampened due to hike in fuel prices and interest rates. The domestic passenger car industry has contracted 1.3% YTD FY12. Honda has turned aggressive in the market with steep price cuts on the *City*, *Jazz* and competitive pricing for *Brio*. Second largest player Hyundai is also expected to unveil *Alto* competitor *Eon* next week putting further pressure on MSIL.

JPY appreciation to eat into profitability: The 16% appreciation in the JPY against the INR in the last six months since the Tsunami struck Japan is bound to put a severe strain on margins.

Outlook: Due to the bleak outlook, we reduce our volume estimates by 15% for FY12 and FY13. The JPY appreciation and lower operating leverage will lead to a 120bps contraction in margin estimates for FY12. We downward revise our earnings estimate for FY12 and FY13 by 28.7% and 22.5% to Rs61.9 and Rs82.4 respectively.

VALUATIONS AND RECOMMENDATION

The stock of the company is trading at 13.4x its FY13E earnings. Given the difficult path ahead, we cut our valuations multiple from 15x earlier to 13.5x. We downgrade the rating on the stock to a 'HOLD' with a reduced target price of Rs1,112 (earlier Rs1,594) discounting FY13E earnings 13.5x.

KEY FINANCIALS						Rs mn
	FY09	FY10	FY11	FY12E	FY13E	
Net Sales	203,583	289,585	361,282	348,506	413,164	
YoY Gr.(%)	14.0	42.2	24.8	(3.5)	18.6	
EBITDA	18,445	39,651	36,781	30,672	39,474	
EBITDA Marg.(%)	8.9	13.4	9.9	8.6	9.3	
Adjusted Net Profit	12,187	24,976	22,886	17,896	23,799	
YoY Gr.(%)	(29.6)	104.9	(8.4)	(21.8)	33.0	
KEY RATIOS						
Dil. EPS (Rs)	42.2	86.4	79.2	61.9	82.4	
ROCE (%)	17.4	31.3	22.9	16.3	19.3	
RoE (%)	13.7	23.6	17.8	12.2	14.5	
PER (x)	26.2	12.8	13.9	17.8	13.4	
EV/Net sales (x)	1.4	0.9	0.7	0.7	0.6	
EV/EBITDA (x)	15.1	6.5	6.8	8.5	6.4	

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PERCENTAGE CHANGE IN ESTIMATES

	FY12E	FY13E
Volume	(14.9)	(15.0)
Net Sales	(13.7)	(13.8)
EBITDA	(24.2)	(19.1)
EBITDA Margin (%)	(120)bps	(60)bps
Net Profit	(28.7)	(22.5)
Diluted EPS	(28.7)	(22.5)

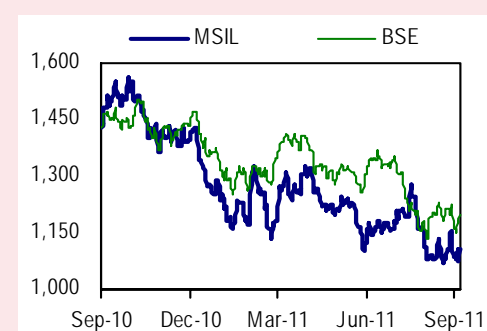
STOCK DATA

Market Cap	Rs319.3bn.
Book Value per share	Rs480
Eq Shares O/S (F.V. Rs5)	289mn.
Free Float	45.8%
Avg Traded Value (6 mnths)	Rs589mn
52 week High/Low	Rs1,600/1,045
Bloomberg Code	MSIL IN
Reuters Code	MRTI.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	2.3	(4.6)	(22.7)
Relative	0.6	6.8	(6.4)

RELATIVE PERFORMANCE



Labour woes continue

MSIL's Manesar facility continues to be impacted by the labour unrest at its Manesar facility. The current impasse is into the thirtieth day in addition to the thirteen day strike in June. The big bang launch of the new Swift has been marred by the worker issues. As against the original plan of producing Swift only at Manesar, the current labor impasse has compelled MSIL to produce the Swift from both Manesar and Gurgaon plants.

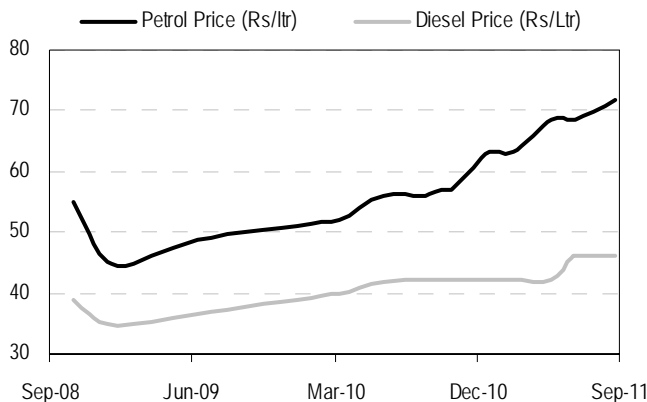
The current bookings for Swift have crossed the 100k mark and current wait time quoted by dealers is to the tune of 7-8 months. MSIL has been able to hit a daily production run rate of 700 units despite the labour issues with the help of new hires from technical training institutes. However, the production of other models at Manesar, namely SX4 and A-Star were crimped and the production has commenced only over the last couple of days.

Another petrol price hike

In mid September, the oil marketing companies took another round of price hike. This was the 12th price hike in the span of 14 months since the fuel was de-regulated in the country. In addition, due to the consistent increase in policy rates by RBI, interest rates on car loans have moved up by 200-300bps over the last one year, thus increasing the overall cost of ownership for customers.

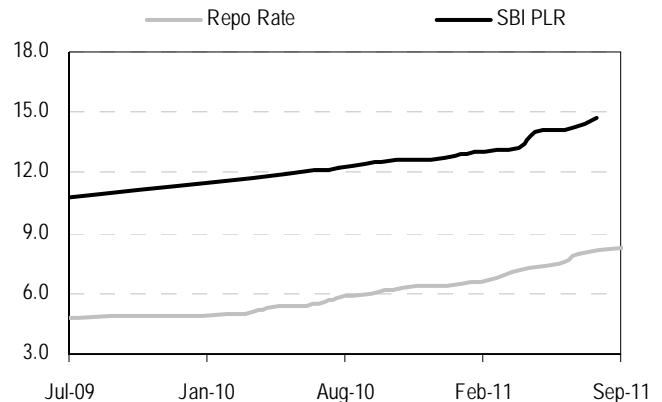
These factors have led to a deferment of purchase especially in the price conscious entry level car segment (i.e. < Rs0.5mn). In FY11, MSIL derived 50% of its domestic volumes from this segment. The segment has declined by 8% in YTD FY12.

Petrol Prices have gone up significantly



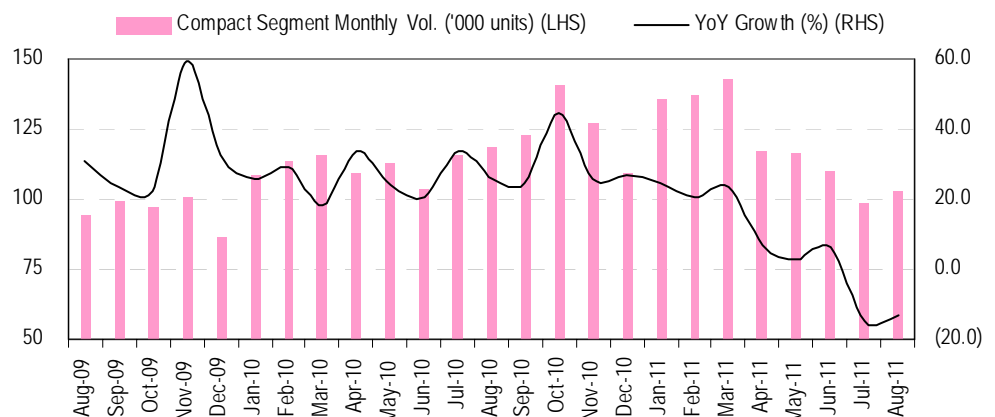
Source: Indian Oil (ex Mumbai)

Successive increase in interest rates



Source: RBI, SBI

Compact car segment worst hit



Source: SIAM, PINC Research

No let off in competitive intensity

In FY10-11, MSIL's dominance in the compact car segment was challenged by a slew of launches namely from Ford, General Motors and Volkswagen. The launch of the Etios Liva by Toyota in June'11 added to the competition. Honda has also jumped in the Indian compact car market with their new offering 'Brio', a couple of days back.

MSIL's leadership position is expected to be further challenged by the launch of Hyundai Eon.

The Brio

The Brio is Honda's first attempt at the sub Rs0.5mn car market. The company had been successful with its sedan City but failed to generate a favourable response for its hatchback i.e. the Jazz due to its exorbitant pricing. Honda had historically maintained a premium pricing for its products, however with increased competition the company faced pressure on marketshare. In the last month, Honda took a corrective action with a steep cut on both the City and Jazz models. After rationalization of prices on Jazz, the demand for the product has increased significantly leading to waiting period for the product.

The newly launched Brio has significant components sharing including the engine with its elder sibling i.e. the Jazz. The economies of scale on both the products has aided Honda price the product aggressively. The Brio has been priced at Rs0.4mn (ex-showroom Delhi) for the base version. The base trim for the Brio has adequate features as compared to the stripped down base version of Etios Liva, launched by Toyota. The Brio would effectively compete against the Maruti Ritz, Hyundai i10 and the Etios Liva which have similar sized engines. Though, 'Brio' lacks a diesel powertrain, we believe it will pose a strong challenge to incumbents in the petrol segment due to Honda's brand equity and competitive pricing.

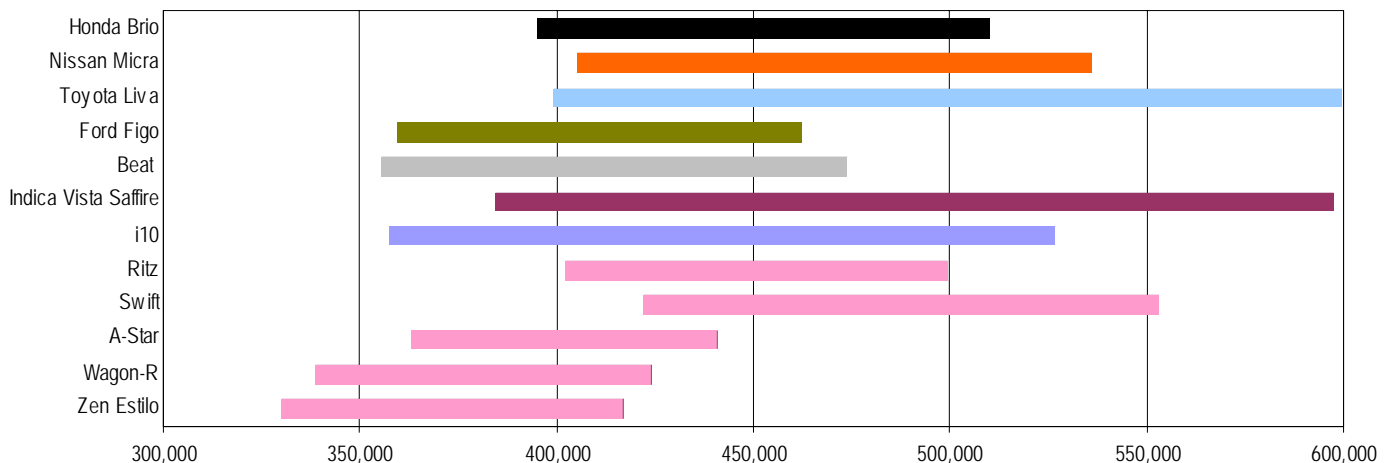


Comparison of Brio with competitors

Model Version	Santro GLS	Estilo Vxi	Wagon R Vxi	Brio E	Liva J	Ritz Lxi	i10 Magna
Engine							
Engine Capacity (cc)	1,086	998	998	1,198	1,197	1,197	1,197
Power (PS@rpm)	63	68	68	88	80	85	80
Max. Torque (Nm@rpm)	96	90	90	109	104	113	99
No. Of Cylinders	4	3	3	4	4	4	4
Valves	12	12	12	16	16	16	16
Mileage (Km/Ltr)	17.9	19.0	18.9	18.4	18.3	17.7	20.4
Dimensions							
Length (mm)	3,565	3,600	3,595	3,610	3,775	3,715	3,585
Width (mm)	1,525	1,495	1,495	1,680	1,695	1,680	1,595
Height (mm)	1,590	1,595	1,700	1,500	1,510	1,620	1,550
Wheelbase (mm)	2,380	2,360	2,400	2,345	2,460	2,360	2,380
Ground Clearance (mm)	164	165	165	165	170	170	165
Boot Space (LTR)	218	212	170	175	251	236	225
Kerb Weight (kgs)	886	845	885	920	890	1,005	927
Tyre Size	155/70 R13	145/70 R13	155/65 R14	175/65 R14	175/65 R14	165/80 R14	155/80 R13
Features							
Electronic Power steering	Y	Y	Y	Y	N	Y	Y
Adjustable tilt steering	N	Y	Y	N	N	N	N
Power windows - Front	Y	Y	Y	Y	N	N	Y
- Rear	N	Y	Y	N	N	N	Y
Music System	N	N	N	N	N	N	N
Front Fog Lamps	N	Y	Y	N	N	N	N
Price	373,138	387,687	393,215	395,000	399,000	402,251	422,752
Average Monthly Volumes*	7,002	3,186	13,607	-	2,684	6,148	12,825

Source: Company, PINC Research * monthly volumes are for all variants of the model

Aggressive pricing for Honda Brio (Rs)



Source: Company, PINC Research

Impending launch of the Eon

Hyundai will be launching its entry level model, the Eon, in the coming weeks. As compared to its existing entry level product 'Santro' which sports a 1,100cc engine, Eon is strapped with a three cylinder 800cc engine. The Eon is expected to start with a pricing of ~Rs0.25mn for its base version. From the initial pictures and details available the Eon looks like a worthy competitor to MSIL in the entry car segment. Although some cannibalization of Santro is expected, the Eon will largely target MSIL's stronghold in terms of Alto, WagonR and Estillo. The Alto currently is the largest selling model in the Indian market with a monthly runrate of ~25k units and Hyundai would be targeting a share in this pie.

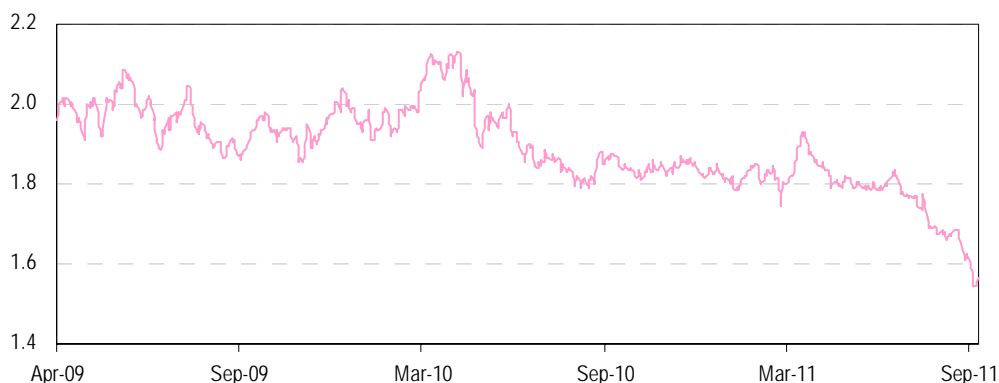


JPY appreciation to hurt

The direct raw material import content for MSIL is in the range of 8-9% of net sales. Besides this, the indirect import content through vendors increases import exposure by another 15%. In addition, the company makes royalty payments to parent Suzuki Motor, Japan in JPY which is to the tune of 5% of net sales. Resultantly, the company's total exposure to the JPY is ~30% of net sales. The company generates nearly 9% of its revenues from exports.

In the last 6 months the JPY has appreciated 7% against the US dollar. The Indian Rupee has depreciated by 9% against the US Dollar. Resultantly, JPY denominated costs for MSIL have gone up a whopping 16%. In the Q1FY12 post result concall the management had stated on being fully hedged till Q2FY12 while keeping the future JPY exposure open. The sharp appreciation in the JPY against Indian rupee will start to have its impact on profitability from Q3FY12 onwards.

Significant appreciation in the Japanese Yen (JPY/INR)



Source: Bloomberg, PINC Research

16% appreciation in the JPY in the last six months

	Current	1M	3M	6M	12M
JPY/INR	1.57	1.66	1.80	1.86	1.87
Movement (%)		(5.7)	(13.2)	(15.7)	(16.3)

Source: Bloomberg, PINC Research

Change in Estimates

15% reduction in volume estimates

In the first five months of FY12, MSIL's volumes have declined 8.3%. The decline has been due to combination of both internal and external factors. Even as the market sentiment deteriorated due to factors mentioned above, the company was plagued by labour issues. Despite a slew of launches in FY11, the high double digit growth in the market enabled MSIL to stave off competition and restrict marketshare contraction to 140bps. However, the current bleak scenario will have its maximum impact on the the market leader MSIL.

The increased competition in the form of Brio and Eon would be adding fuel to the fire. Especially the Eon would compete in the segment wherein MSIL had negligible competition. Due to the culmination of the above factors we have reduced our volume estimates to the tune of 15% for FY12 and FY13.

Reduced margins

Significant exposure to the JPY and the steady appreciation of the currency against the Indian Rupee would have a severe impact on the company's profitability. As MSIL is covered on JPY exposure only till Q2FY12, the full impact of currency would be visible only in H2FY12. Increase in raw material cost and royalty bill would have a significant impact on margins. Additionally due to the lower operating leverage we have reduced our margin estimates for FY12 and FY13 by 120bps and 60bps respectively. Resultantly, we have reduced our earnings estimate for FY12 and FY13 by 29% and 22% to Rs61.9 and Rs82.4 respectively.

Change in Estimates						
	FY12E			FY13E		
	Earlier	Revised	Change	Earlier	Revised	Change
Volume (mn units)	1.37	1.17	(14.9)	1.57	1.34	(15.0)
Net Sales (Rs mn)	403,992	348,506	(13.7)	479,449	413,164	(13.8)
EBITDA	40,476	30,672	(24.2)	48,806	39,474	(19.1)
EBITDA Margin (%)	9.8	8.6	(120)bps	9.9	9.3	(60)bps
Net Profit (Rs mn)	25,102	17,896	(28.7)	30,705	23,799	(22.5)
Diluted EPS (Rs)	86.9	61.9	(28.7)	106.3	82.4	(22.5)

Year Ended March (Figures in Rs mn)

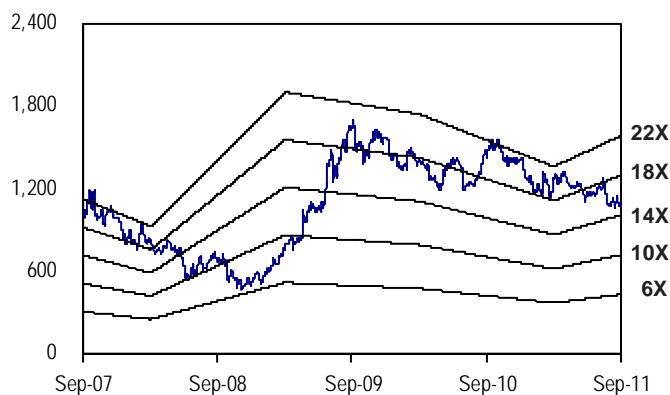
Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net sales	203,583	289,585	361,282	348,506	413,164
Growth (%)	14.0	42.2	24.8	(3.5)	18.6
Operating profit	15,345	33,140	27,663	21,152	28,334
Other operating income	3,100	6,511	9,118	9,520	11,140
EBITDA	18,445	39,651	36,781	30,672	39,474
Growth (%)	(32.6)	115.0	(7.2)	(16.6)	28.7
Depreciation	(7,065)	(8,250)	(10,135)	(11,698)	(13,566)
Other income	5,888	4,859	4,686	5,574	6,453
EBIT	17,268	36,260	31,332	24,548	32,361
Interest paid	(510)	(335)	(244)	(200)	(200)
PBT (before E/o items)	16,758	35,925	31,088	24,348	32,161
Tax provision	(4,571)	(10,949)	(8,202)	(6,452)	(8,362)
E/o Income / (loss)	-	-	-	-	-
Net profit	12,187	24,976	22,886	17,896	23,799
Adjusted net profit	12,187	24,976	22,886	17,896	23,799
Growth (%)	(29.6)	104.9	(8.4)	(21.8)	33.0
Diluted EPS (Rs)	42.2	86.4	79.2	61.9	82.4
Diluted EPS Growth (%)	(29.6)	104.9	(8.4)	(21.8)	33.0

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	16,758	35,925	31,088	24,348	32,161
Depreciation	6,610	7,322	8,263	11,698	13,566
Total tax paid	(4,310)	(10,007)	(9,779)	(5,780)	(8,021)
Chg in working capital	(2,031)	(1,480)	4,738	(3,492)	(677)
Other operating activities	(1,709)	1,947	-	-	-
Cash flow from oper. (a)	15,318	33,707	34,310	26,774	37,029
Capital expenditure	(15,603)	(12,124)	(23,720)	(34,539)	(25,175)
Chg in investments	(675)	(10)	(125)	-	-
Other investing activities	-	-	-	-	-
Cash flow from inv. (b)	(16,278)	(12,134)	(23,845)	(34,539)	(25,175)
Free cash flow (a+b)	(960)	21,573	10,465	(7,765)	11,854
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(2,013)	1,225	(5,121)	(1,712)	(1,200)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(1,691)	(1,183)	(2,021)	(2,518)	(3,032)
Other financing activities	-	-	(44)	-	-
Cash flow from fin. (c)	(3,704)	42	(7,186)	(4,230)	(4,232)
Net chg in cash (a+b+c)	(4,664)	21,615	3,279	(11,995)	7,622

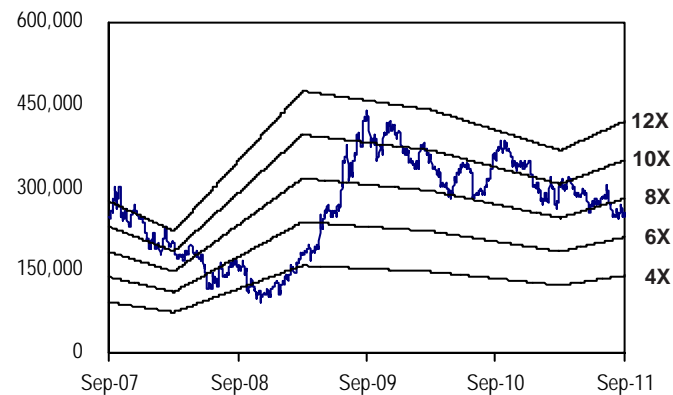
Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity capital	1,445	1,445	1,445	1,445	1,445
Reserves & surplus	92,004	116,906	137,230	152,094	172,524
Shareholders' funds	93,449	118,351	138,675	153,539	173,969
Preference Share Capital	-	-	-	-	-
Total Debt	6,989	8,214	3,093	1,381	181
Capital Employed	100,438	126,565	141,768	154,920	174,150
Net fixed assets	49,321	54,123	69,580	92,421	104,030
Cash & Cash Eq.	47,297	68,912	72,191	60,196	67,818
Net other Current Assets	1,545	1,064	(2,320)	136	285
Investments	3,826	3,836	3,961	3,961	3,961
Net Deferred Tax Assets	(1,551)	(1,370)	(1,644)	(1,794)	(1,944)
Total assets	100,438	126,565	141,768	154,920	174,150

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
EBITDA (%)	8.9	13.4	9.9	8.6	9.3
Net margin (%)	6.0	8.6	6.3	5.1	5.8
Dividend yield (%)	0.3	0.5	0.7	0.8	0.9
Net debt/Equity (x)	(0.4)	(0.5)	(0.5)	(0.4)	(0.4)
Net Working Capital (days)	(17)	(8)	(9)	(7)	(5)
Asset turnover (x)	1.6	1.9	2.1	1.8	1.9
ROCE (%)	17.4	31.3	22.9	16.3	19.3
RoE (%)	13.7	23.6	17.8	12.2	14.5
EV/Net sales (x)	1.4	0.9	0.7	0.7	0.6
EV/EBITDA (x)	15.1	6.5	6.8	8.5	6.4
PER (x)	26.2	12.8	13.9	17.8	13.4
Price/Book (x)	3.4	2.7	2.3	2.1	1.8

P/E Band



EV/EBITDA



T E A M

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