

Maruti Suzuki

Performance Highlights

For 4QFY2010, Maruti Suzuki (Maruti) registered 31% yoy growth in Net Sales to Rs8,425cr (Rs6,433cr) and Net Profit of Rs657cr (Rs243cr), which were below our expectations. The company reported a good yoy performance on the Operating front owing to the substantial dip in Raw Material cost and improved Operating leverage. However, on a sequential basis, the company recorded around 193bp qoq decline in OPM, which came in lower than our expectation. **We maintain a Buy on the stock.**

Performance below expectations, Volume drives growth: For 4QFY2010, Maruti reported Turnover of Rs8,425cr (Rs6,433cr), up 31% yoy, primarily on the back of a robust 21.5% yoy increase in Volume and 7.6% yoy jump in Average Realisations. OPM stood at 13.2% (7%) owing to the 329bp contraction in Raw Material costs, which accounted for 73.0% (76.2%) of Net Sales, and overall achieving optimum operating leverage. Maruti recorded Net Profit of Rs657cr (Rs243cr), which was below our expectation of Rs705cr.

Outlook and Valuation: We remain positive on Maruti and expect it to register CAGR of 12.5% in overall Volumes over FY2010-12E aided by around 12.0% growth in Domestic Volumes and more than 20.0% growth in Export Volumes. We believe that the high growth potential of the Indian car market would mitigate the impact of rising competition for market leader Maruti Suzuki. However, higher commodity prices and increasing competition will restrict robust growth in Bottom-line. For FY2010-12E, we estimate the company's Top-line to record CAGR of 16.1% to and Net Profit to clock a CAGR of 11% following the dip in Operating Margins (due to higher input costs and advertising expenditure). We have marginally downgraded our EPS estimates for FY2011E to Rs93.3 (Rs96.6) and for FY2012E to Rs105.9 (Rs109.8). At the CMP, the stock is trading at 14.3x and 12.6x FY2011E and FY2012E Earnings, respectively. We maintain a Buy on Maruti, with a revised Target Price of Rs1,694 (Rs1,757), at which level the stock would trade at 16x FY2012E EPS.

Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	20,455	29,099	33,593	39,238
% chg	14.3	42.3	15.4	16.8
Net Profit	1,219	2,498	2,695	3,060
% chg	(31.4)	104.9	7.9	13.5
OPM (%)	7.0	11.8	11.3	11.3
EPS (Rs)	37.1	86.4	93.3	105.9
P/E (x)	36.0	15.4	14.3	12.6
P/BV (x)	4.1	3.1	2.6	2.2
RoE (%)	15.7	16.5	19.2	17.8
RoCE (%)	7.4	22.3	20.0	19.7
EV/Sales (x)	1.5	1.0	0.8	0.7
EV/EBITDA (x)	23.8	9.7	8.3	6.7

Source: Company, Angel Research

BUY

CMP	Rs1,335
Target Price	Rs1,694

Investment Period	12 Months
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Stock Info

Sector	Automobile
Market Cap (Rs cr)	38,571
Beta	0.7
52 WK High / Low	1,740/772
Avg. Daily Volume	142,845
Face Value (Rs)	5
BSE Sensex	17,745
Nifty	5,322
Reuters Code	MRTI.BO
Bloomberg Code	MSIL@IN

Shareholding Pattern (%)

Promoters	54.2
MF/Banks/Indian FIs	22.3
FII/NRIs/OCBs	21.2
Indian Public	2.3

Abs. (%)	3m	1yr	3yr
Sensex	5.7	56.6	24.7
Maruti	(7.6)	66.4	67.5

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Exhibit 1: 4QFY2010 Performance

Y/E March (Rs cr)	4QFY2010	4QFY2009	% chg	FY2010	FY2009	% chg
Net Sales (include Other Op. Inc.)	8,425	6,433	31.0	29,623	20,853	42.1
Consumption of RM	6,141	4,901	25.3	21,508	15,517	38.6
(% of Sales)	72.9	76.2		72.6	74.4	
Staff Costs	153.4	133.1	15.2	545.6	471.1	15.8
(% of Sales)	1.8	2.1		1.8	2.3	
Purchases of TG	272.2	180.3	51.0	905.0	725.6	24.7
(% of Sales)	3.2	2.8		3.1	3.5	
Other Expenses	747.4	769.6	(2.9)	2,709.7	2,306.7	17.5
(% of Sales)	8.9	12.0		9.1	11.1	
Total Expenditure	7,314	5,984	22.2	25,669	19,021	35.0
Operating Profit	1,111	449	147.3	3,954	1,832	115.8
OPM	13.2	7.0		13.3	8.8	
Interest	12.9	8.9	44.9	33.5	51.0	(34.3)
Depreciation	223.0	197.1	13.1	825.0	706.5	16.8
Other Income	79.0	105.4	(25.1)	496.8	601.3	(17.4)
PBT (excl. Extr. Items)	954.1	348.7	173.6	3,593	1,676	114.4
Extr. Income/(Expense)	0.0	0.0	-	0.0	0.0	-
PBT (incl. Extr. Items)	954.1	348.7	173.6	3,593	1,676	114.4
(% of Sales)	11.3	5.4		12.1	8.0	
Provision for Taxation	297.6	105.6	181.8	1,094.9	457.1	139.5
(% of PBT)	31.2	30.3		30.5	27.3	
Reported PAT	656.5	243.1	170.0	2,498	1,219	104.9
PATM	7.8	3.8		8.4	5.8	
Equity capital (cr)	144.5	144.5		144.5	144.5	
EPS (Rs)	22.7	8.4	170.0	86.4	42.2	104.9

Source: Company, Angel Research

Performance below expectation: For 4QFY2010, Maruti recorded 31% jump in Net Sales to Rs8,425cr (including Service Income and Other Operating Income), which was below our expectation of Rs8,480cr. The Sales performance came on the back of the robust 21.5% yoy increase in Volumes, while average net realisation per vehicle moved up 7.6% yoy primarily due to the change in Sales mix. Exports registered a strong 67.1% yoy growth on the back of A-Star volumes driven by the European markets, recording Revenues of Rs1,283cr. Bottom-line grew 170% yoy to Rs657cr (Rs243cr) largely due to buoyant volumes on account of the spurt in demand in 4QFY2010, strong Exports, better Operating leverage and enhanced Product mix.

Margins spurt yoy on high Volumes, optimum Operating leverage: During 4QFY2010, Maruti witnessed a 620bp yoy improvement in EBITDA Margins owing to improved Operating leverage largely due to favourable Product mix, Price variance and impact of Forex (Yen depreciation) on vendor imports, which circumvented the yoy increase in commodity prices. Staff costs and Other Expenditure dipped by 25bp and 309bp yoy in 4QFY2010, respectively. Overall, Maruti reported a stupendous 147% yoy increase in Operating Profit to Rs1,111cr (Rs449cr). However, on a sequential basis, the company reported 193bp qoq dip in OPM largely due to higher Raw material cost (on account of the cost of BS-IV upgradation) and higher advertising cost (incurred at the Auto Expo). In the coming quarters, management has guided that OPMs would be under pressure in view of the rising metal prices (steel, aluminum and copper). Unfavourable currency movements could also act as a risk to our Earning estimates going forward.

Net Profit lower than estimated, surges 170%: Net Profit for the quarter increased a whopping 170% yoy to Rs656cr (Rs243cr) as against our expectation of Rs705cr. Depreciation increased 13.1% yoy to Rs223cr, with the company incurring Capex of around Rs1,300cr. Steady Tax provisioning was in line with estimates and robust Operating performance was complemented by healthy Top-line, which helped Maruti clock good growth for the quarter.

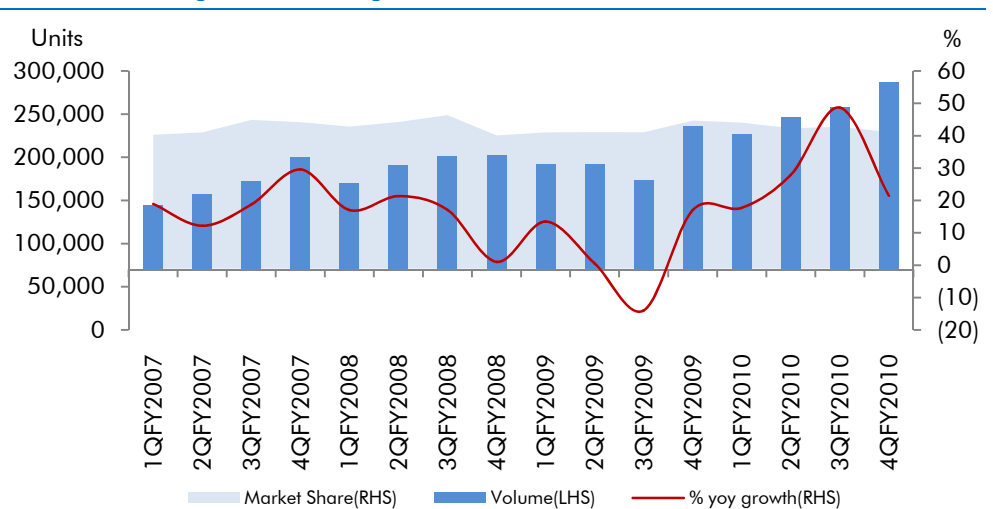
Volume Performance: During the quarter, Maruti registered strong Volume growth both in the Domestic as well as Export markets. The company posted Total Sales Volume of 287,422 units during the quarter, up 21.5%. This included exceptional growth in Exports of a record 42,040 units, a yoy growth of 67.1%. Robust sales of A-Star and continued focus on tapping new market segments enabled the company achieve such a robust growth during the quarter. Management has guided on successfully developing an alternative Export strategy with 26 non-European markets panning out in their Export portfolio, which is expected to support continuing robust growth in the European markets going ahead for Maruti.

Exhibit 2: 4QFY2010 Product Performance

Segment / Model	4QFY10	4QFY09	% chg	FY10	FY09	% chg
A1 : Maruti 800	8,434	12,076	(30)	33,028	49,383	(33)
C: Omni, Versa	32,466	21,421	52	101,325	77,948	30
A2: Alto, Wagon R, Zen, Swift, A-Star	173,683	152,645	14	633,190	511,396	24
A3 : SX4, Esteem, Dzire	29,702	23,228	28	99,315	75,928	31
Total Passenger cars	244,285	209,370	17	866,858	714,655	21
MUV: Gypsy, Vitara	1,097	2,115	(48)	3,932	7,489	(48)
Domestic	245,382	211,485	16	870,790	722,144	21
Exports	42,040	25,153	67	147,557	70,023	111
Total Sales	287,422	236,638	22	1,018,347	792,167	29

Source: Company, Angel Research

Exhibit 3: Passenger Vehicles Segment Volume



Source: SIAM, Angel Research

Capex plan and focus on R&D: The company continues to focus on long-term initiatives and its long-term capex plan of Rs9,000cr remains unchanged to be incurred over FY2008-12E. As per its initial plan, the company incurred capex of around Rs1,600cr in FY2009 and intends to invest another Rs2,800cr and Rs3,000cr in FY2010E and FY2011E, respectively. The Board of Directors have also approved investment towards capacity expansion at Manesar, which will entail capex of around Rs1,700cr leading to additional capacity of 250,000 cars per annum in addition to the current one million car capacity. The additional capacity will begin commercial production by 4QFY2012E. Management is focussed on R&D and investment in new and innovative products apart from keeping a check on selling and marketing expenditure in an intensifying competitive scenario.

Passenger Car Industry: The Auto Expo 2010 unveiled a slew of new launches in the Passenger Car industry, particularly in the compact A2 Segment. Global manufacturers like Toyota (*Etios* to be launched by December 2010), Volkswagen (*Polo* launched in March 2010), General Motors (*Chevrolet Beat* launched at the Auto Expo) and Honda (*Concept Car* launch likely by December 2011) are geared to put forward attractively priced cars, which has to be looked as a threat to Maruti's market share over the next 3-4 years. In 4QFY2010, there was a spurt of new model launches by competitors at aggressive pricing levels. This eroded Maruti's market share from around 51% in 3QFY2010 to around 47% in 4QFY2010. However, management believes that the lower cost of ownership of its vehicles will offset competitors' pricing tactics and lost market share will be regained.

We believe that given its low penetration, the PV Segment has the potential to accommodate more competition and yet record double-digit growth over the next five years, and Maruti would continue its strong foothold in the car market as it has a sizeable competitive advantage over the new foreign entrants due to its widespread distribution network (service and sales outlets of around 2,767 and 802, respectively), which is not easy to replicate.

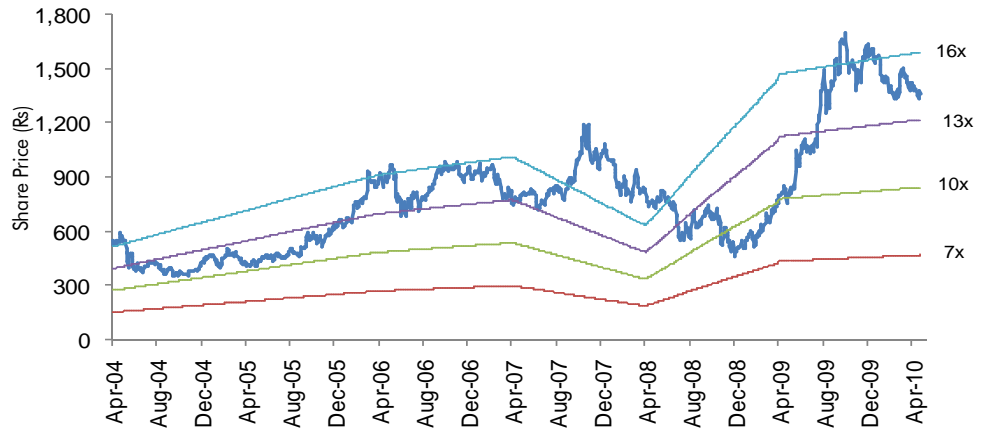
Outlook and Valuation

The PV Segment registered robust 26.9% yoy growth in FY2010 aided by the various stimulus packages announced by the government, improved business economic scenario and benign Interest rates following positive measures announced by the RBI and higher contribution from Export volumes. Further, lower penetration, favourable demographics and improving per capita would support around 12% CAGR in the PV Industry over the next 4-5 years. We believe that the high growth potential of the Indian car market would mitigate the impact of rising competition for market leader Maruti Suzuki.

We remain positive on Maruti and expect it to register CAGR of 12.5% in overall Volumes over FY2010-12E aided by around 12% CAGR in Domestic Volumes and more than 20% CAGR in Export Volumes. We believe that the high growth potential of the Indian car market would mitigate the impact of rising competition for market leader Maruti Suzuki. However, higher commodity prices and increasing competition will restrict the company's robust growth in Bottom-line. For FY2010-12E, we estimate the company's Top-line to record CAGR of 16.1% to and Net Profit to clock CAGR of 11% following the dip in Operating Margins (due to higher input costs and advertising expenditure). We have marginally downgraded our EPS estimates for FY2011E to Rs93.3 (Rs96.6) and for FY2012E to Rs105.9 (Rs109.8).

At the CMP, the stock is trading at 14.3x and 12.6x FY2011E and FY2012E Earnings, respectively. **We maintain a Buy on Maruti, with a revised Target Price of Rs1,694 at which level the stock would trade at 16x FY2012E EPS.**

Exhibit 4: 1-year forward P/E Band



Source: C-Line, Angel Research

Profit & Loss Statement
Rs crore

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Sales	14,696	17,892	20,455	29,099	33,593	39,238
Total operating income	14,696	17,892	20,455	29,099	33,593	39,238
% chg	-	21.7	14.3	42.3	15.4	16.8
Total Expenditure	12,706	15,598	19,020	25,669	29,781	34,804
Net Raw Materials	10,982	13,455	16,243	22,413	25,414	29,821
Other Mfg costs	250.9	345.1	0.0	0.0	772.6	863.2
Personnel	266.3	346.8	471.1	545.6	671.9	784.8
Other	1,207	1,451	2,307	2,710	2,923	3,335
EBITDA	1,990	2,294	1,435	3,430	3,812	4,434
% chg	-	15.2	(37.4)	139.1	11.1	16.3
(% of Net Sales)	13.5	12.8	7.0	11.8	11.3	11.3
Depreciation & Amortisation	271.4	568.2	706.5	825.0	930.3	1,094.1
EBIT	1,719	1,726	728	2,605	2,881	3,340
% chg	-	0.4	(57.8)	257.7	10.6	15.9
(% of Net Sales)	11.7	9.6	3.6	9.0	8.6	8.5
Interest & other Charges	37.6	59.6	51.0	33.5	34.9	34.9
Other Income	611	883	999	1,021	1,088	1,165
(% of PBT)	27.0	35.5	65.3	28.4	27.7	26.1
Recurring PBT	2,292	2,549	1,676	3,593	3,935	4,470
% chg	-	11.2	(34.2)	114.4	9.5	13.6
Extraordinary Expense/(Inc.)	(26.7)	(61.1)	(146.1)	0.0	0.0	0.0
PBT	2,265	2,488	1,530	3,593	3,935	4,470
Tax	718	772	457	1,095	1,239	1,410
(% of PBT)	32	31	30	30	32	32
PAT (reported)	1,574	1,777	1,219	2,498	2,695	3,060
ADJ. PAT	1,548	1,716	1,073	2,498	2,695	3,060
% chg	31.8	10.9	(37.5)	132.8	7.9	13.5
(% of Net Sales)	10.5	9.6	5.2	8.6	8.0	7.8
Basic EPS (Rs)	53.5	59.4	37.1	86.4	93.3	105.9
Fully Diluted EPS (Rs)	53.5	59.4	37.1	86.4	93.3	105.9
% chg	31.8	10.9	(37.5)	132.8	7.9	13.5

Balance Sheet
Rs crore

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	145	145	145	145	145	145
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	6,709	8,271	9,200	12,199	14,619	17,357
Shareholders Funds	6,854	8,415	9,345	12,344	14,763	17,501
Total Loans	631	900	699	699	699	699
Deferred Tax Liability	168	170	155	152	132	112
Total Liabilities	7,652	9,486	1,0199	13,194	15,594	18,312
APPLICATION OF FUNDS						
Gross Block	6,147	7,285	8,721	10,981	12,920	15,091
Less: Acc. Depreciation	3,487	3,989	4,650	5,475	6,405	7,499
Net Block	2,660	3,297	4,071	5,506	6,515	7,592
Capital Work-in-Progress	251	736	861	1,098	1,034	755
Goodwill	-	-	-	-	-	-
Investments	3,409	5,181	3,173	5,278	6,238	7,325
Current Assets	4,405	3,098	5,491	5,983	7,205	8,739
Cash	1,423	331	1,939	850	1,538	2,353
Loans & Advances	1,533	1,074	1,731	2,619	2,855	3,139
Other	1,449	1,694	1,821	2,515	2,812	3,247
Current liabilities	3,072	2,826	3,398	4,671	5,398	6,099
Net Current Assets	1,333	272	2,094	1,312	1,807	2,640
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	7,652	9,486	10,199	13,194	15,594	18,312

Cash Flow Statement						Rs crore
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Profit before tax	2,265	2,488	1,605	3,452	3,935	4,470
Depreciation	271	568	707	825	930	1,094
Change in Working Capital	(596)	(152)	(403)	(444)	(401)	(231)
Less: Other income	(829)	263	258	(167)	(89)	339
Direct taxes paid	718	772	457	1,095	1,239	1,410
Cash Flow from Operations	2,052	1,869	1,193	2,905	3,313	3,583
(Inc./Dec. in Fixed Assets)	(1,351)	(1,624)	(1,560)	(2,497)	(1,875)	(1,892)
(Inc./Dec. in Investments)	(1,358)	(1,772)	2,007	(2,104)	(960)	(1,087)
(Inc./Dec. in loans and advances)	(75)	66	(40)	(1,247)	(169)	(59)
Other income	611	883	999	1,021	1,088	1,165
Cash Flow from Investing	3,394	4,213	592	6,869	4,092	4,203
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	559	269	(201)	-	-	-
Dividend Paid (Incl. Tax)	115	152	169	118	203	254
Others	6,371	7,595	144	10,982	6,921	7,225
Cash Flow from Financing	(5,697)	(7,174)	(176)	(10,864)	(6,718)	(6,971)
Inc./(Dec.) in Cash	(250)	(1,092)	1,609	(1,089)	688	815
Opening Cash balances	1,673	1,423	331	1,939	850	1,538
Closing Cash balances	1,423	331	1,939	850	1,538	2,353

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	24.9	22.5	36.0	15.4	14.3	12.6
P/CEPS	20.9	16.5	20.0	11.6	10.6	9.3
P/BV	5.6	4.6	4.1	3.1	2.6	2.2
Dividend yield (%)	0.3	0.4	0.3	0.4	0.6	0.7
EV/Sales	2.0	1.6	1.5	1.0	0.8	0.7
EV/EBITDA	17.3	14.8	23.8	9.7	8.3	6.7
EV / Total Assets	6.1	4.4	3.6	3.3	2.4	1.9
Per Share Data (Rs)						
EPS (Basic)	53.5	59.4	37.1	86.4	93.3	105.9
EPS (fully diluted)	53.5	59.4	37.1	86.4	93.3	105.9
Cash EPS	63.9	81.1	66.6	115.0	125.4	143.7
DPS	4.5	5.0	3.5	6.0	7.5	8.8
Book Value	237.2	291.2	323.4	427.1	510.8	605.6
Dupont Analysis						
EBIT margin	11.7	9.6	3.9	9.0	8.6	8.5
Tax retention ratio	0.7	0.7	0.7	0.7	0.7	0.7
Asset turnover (x)	5.9	5.3	4.5	4.8	4.5	4.8
ROIC (Post-tax)	47.3	35.0	12.7	29.8	26.5	27.8
Cost of Debt (Post Tax)	7.3	5.4	4.6	3.3	3.4	3.4
Leverage (x)	0.0	0.0	0.0	0.0	0.0	0.0
Operating ROE	47.3	35.0	12.7	29.8	26.5	27.8
Returns (%)						
ROCE (Pre-tax)	25.9	20.1	8.2	22.3	20.0	19.7
Angel ROIC (Pre-tax)	61.0	43.4	14.3	36.9	36.9	38.7
ROE	22.4	21.4	16.1	16.8	19.2	17.8
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.6	2.7	2.6	3.0	2.8	2.8
Inventory / Sales (days)	19.7	17.7	17.3	13.8	15.1	14.9
Receivables (days)	17.3	14.3	14.0	15.2	14.6	14.0
Payables (days)	43.7	45.6	48.8	43.9	46.7	45.8
WC cycle (ex-cash) (days)	(2.2)	(1.5)	0.9	3.9	4.0	2.6
Solvency ratios (x)						
Net debt to equity	(0.6)	(0.5)	(0.5)	(0.4)	(0.5)	(0.5)
Net debt to EBITDA	(2.1)	(2.0)	(2.9)	(1.6)	(1.9)	(2.0)
Interest Coverage (EBIT / Interest)	45.7	29.0	15.8	77.8	82.5	95.6

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Disclosure of Interest Statement	Maruti Suzuki
1. Analyst ownership of the stock	Yes
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel and its Group companies.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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