



Maruti Suzuki

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,032	MSIL IN
	REUTERS CODE
S&P CNX: 6,018	MRTL.BO

29 October 2010

Buy

Previous Recommendation: Buy

Rs1,551

Diluted Equity Shares	289.0
52-Week Range	1,658/1,171
1,6,12 Rel.Perf.(%)	8/6/-12
M.Cap. (Rs b)	448.2
M.Cap. (US\$ b)	10.1

YEAR	TOTAL INC.	PAT	ADJ. EPS	EPS	P/E	P/CE	P/BY	EV/	ROE	ROCE
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(X)	EBITDA	(%)	(%)
3/09A	209,074	13,334	46.1	-22.0	33.6	22.0	4.8	19.7	13.0	18.7
3/10A	296,231	25,062	86.7	87.9	17.9	13.5	3.8	9.7	21.1	28.4
3/11E	362,980	23,637	81.8	-5.7	19.0	13.3	3.2	10.0	16.7	22.7
3/12E	429,718	28,666	99.2	21.3	15.6	10.9	2.7	7.9	17.4	23.5

Maruti's 2QFY11 operating performance was below expectations, with EBITDA margin of 10.5% (v/s our estimate of 10.9%). However, higher than estimated other income and lower tax boosted adjusted PAT to Rs5.98b (v/s our estimate of Rs6.02b). Key highlights:

- Net sales grew 10.1% QoQ (~27% YoY) to Rs91.5b (v/s our estimate of Rs91.1b), driven by 10.7% QoQ (~27.4% YoY) growth in volumes. Overall realizations were flat YoY despite 17.5% YoY decline in export realizations.
- EBITDA margin expanded 20bp QoQ (~220bp YoY decline) to 10.5%, driven by 20bp QoQ decline (~60bp YoY increase) in other expenditure.
- EBITDA grew 4.8% YoY (~12% QoQ) to Rs9.6b (v/s our estimate of Rs9.9b). Higher than estimated other income, lower depreciation and tax boosted adjusted PAT by 5% YoY (~16.7% QoQ) to Rs5.98b (v/s our estimate of Rs6.02b).
- The management indicated that it is witnessing severe pressure due to forex volatility (only ~12.5% of 2HFY11 JPY exposure hedged) and increase in non-steel commodity prices, the impact of which would be reflected in 2HFY11. However, higher operating leverage (~8% growth in volumes in 2HFY11 over 1HFY11) would offset cost pressures.

Valuation and view: We downgrade our EPS estimates by ~3.5% to Rs81.8 for FY11 and to Rs99.2 for FY12 to factor in the cost push. The stock trades at 15.6x FY12E EPS and 14.5x FY12E consolidate EPS. Maintain **Buy**, with a target price of Rs1,711 (~12x FY12E cash EPS - median cash P/E since listing).

QUARTERLY PERFORMANCE

Y/E MARCH	(Rs Million)									
	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	226,729	246,188	258,026	287,422	283,324	313,654	321,500	323,341	1,018,365	1,241,819
Change (%)	17.7	29.9	48.7	21.5	25.0	27.4	24.6	12.5	28.6	21.9
Realizations (Rs/car)	279,640	286,349	284,226	286,508	284,151	284,935	286,095	285,838	284,363	285,291
Change (%)	13.8	12.9	8.0	7.5	1.6	-0.5	0.7	-0.2	10.4	0.3
Net Op. Revenues	64,930	72,038	75,029	84,246	83,062	91,473	93,959	94,485	296,230	362,980
Change (%)	33.6	44.3	60.3	31.0	27.9	27.0	25.2	12.2	41.7	22.5
RM Cost (% of Sales)	76.3	75.7	74.5	76.1	77.2	77.4	77.2	77.3	75.7	77.3
Staff Cost (% of Sales)	2.1	1.8	1.8	1.8	1.9	1.7	1.8	1.8	1.8	1.8
Other exp. (% of Sales)	9.4	9.8	8.6	8.9	10.6	10.4	10.3	10.3	9.1	10.4
EBITDA	7,932	9,161	11,339	11,111	8,577	9,603	10,095	9,984	39,543	38,258
As % of Sales	12.2	12.7	15.1	13.2	10.3	10.5	10.7	10.6	13.3	10.5
Change (%)	39.4	77.6	222.3	147.3	8.1	4.8	-11.0	-10.1	109.5	-3.2
Non-Operating Income	2,165	1,100	913	790	1,002	1,340	1,300	1,421	4,968	5,063
Extraordinary Expense	0	0	0	0	652	0	0	0	0	652
Interest	63	60	84	129	80	97	95	96	335	368
Depreciation	1,961	2,031	2,028	2,230	2,417	2,382	2,450	2,541	8,250	9,790
PBT	8,073	8,171	10,140	9,542	6,430	8,464	8,850	8,767	35,925	32,511
Tax	2,238	2,471	3,265	2,976	1,777	2,481	2,522	2,518	10,949	9,298
Effective Tax Rate (%)	27.7	30.2	32.2	31.2	27.6	29.3	28.5	28.7	30.5	28.6
PAT	5,835	5,700	6,875	6,566	4,654	5,982	6,328	6,249	24,976	23,213
Adjusted PAT	5,835	5,700	6,875	6,566	5,125	5,982	6,328	6,249	24,976	23,678
Change (%)	25.3	92.5	221.6	170.0	-12.2	5.0	-8.0	-4.8	105.9	-5.2

E:MOSL Estimates

Robust volumes boost revenues

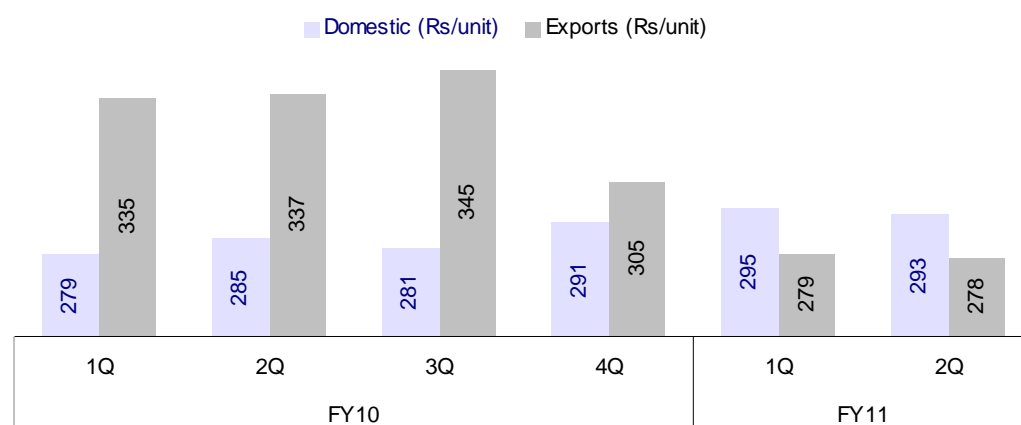
Net revenues grew 10.1% QoQ (~27% YoY) to Rs91.5b (v/s our estimate of Rs91.1b), driven by 10.7% QoQ (~27.4% YoY) improvement in volumes and 0.3% QoQ improvement (~0.5% YoY decline) in realizations. Volume growth was driven by 32.9% YoY (~14.4% QoQ) growth in domestic volumes, whereas exports declined 3.7% YoY (~11.7% QoQ). Realizations improved by 0.3% QoQ (~0.5% YoY decline) to Rs284,935/unit, driven by price increase taken in August 2010. While domestic realizations improved by 3% YoY driven by price increases and lower discounts, export realizations declined 17.5% YoY, impacted by depreciating EUR and change in market mix in favor of non-Euro region (~60% of exports to non-Euro v/s 20% in 2QFY10). Product mix has stabilized, with higher share of A2 and A3 segment (to 84.8% v/s 87.1% in 2QFY10 and 84.7% in 1QFY11). The MPV segment has shown an increase (to 13.3% v/s 9% in 2QFY10 and 11.8% in 1QFY11), led by robust demand for Eeco.

Sales mix stabilizing with higher contribution from A2 and A3 segment

	2QFY11	2QFY10	YoY (%)	1QFY11	QoQ (%)
A1	5,207	8,737	-40.4	6,906	-24.6
% of total	1.7	3.5		2.4	
MPV	41,596	22,200	87.4	33,521	24.1
% of total	13.3	9.0		11.8	
A2	198,953	153,096	30.0	170,513	16.7
% of total	63.4	62.2		60.2	
A3	31,362	24,278	29.2	28,958	8.3
% of total	10.0	9.9		10.2	
UV	818	772	6.0	2,989	-72.6
% of total	0.3	0.3		1.1	
Exports	35,718	37,105	-3.7	40,437	-11.7
% of total	11.4	15.1		14.3	
Total Sales	313,654	246,188	27.4	283,324	10.7
Total PV (Incl Exports) MS (%)	43.0	42.3	60	42.7	20
Total Dom. Cars MS (%)	48.2	50.9	-270	47.6	60
Total Dom. Car (ex-Nano) MS (%)	50.5	52.0	-150	49.3	130

Source: Company/SIAM/MOSL

Trend in realizations (Rs '000/unit)

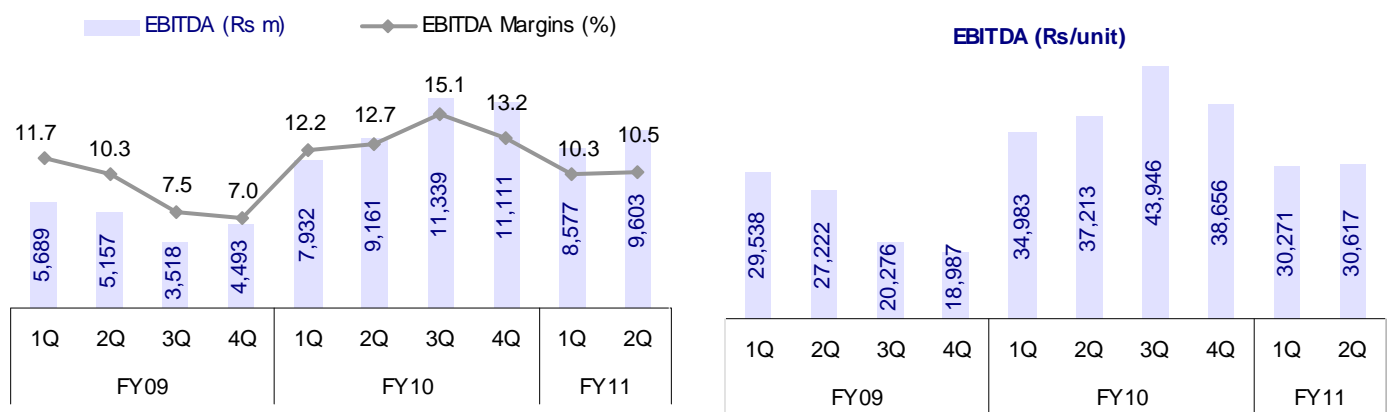


Source: Company/MOSL

RM cost inflation restricts margin expansion to 20bp QoQ

EBITDA margin expanded 20bp QoQ (declined ~220bp YoY) to 10.5% (v/s our estimate of 10.9%), driven by 20bp QoQ decline (~60bp YoY increase) in other expenditure and higher operating leverage. Lower other expenditure was driven by lower selling and advertising expenses due to robust demand (~40bp QoQ improvement) and savings from gas-based power plant at Manesar (~20bp improvement). RM cost increased by 20bp QoQ (~170bp YoY), fully reflecting the revised contracted steel prices. The management indicated that the impact of steel price increase in 2QFY11 is ~75bp (of which ~35bp is arrears of 1QFY11 paid in 2QFY11). Royalty was higher by ~20bp QoQ (adjusted for arrears in 1QFY11) at 5.3% due to adverse product mix change and strengthening JPY. EBITDA grew 4.8% YoY (~12% QoQ) to Rs9.6b (v/s our estimate of Rs9.9b). Higher than estimated other income, lower depreciation and tax boosted adjusted PAT by 5% YoY (~16.7% QoQ) to Rs5.98b (v/s our estimate of Rs6.02b).

Trend in EBITDA

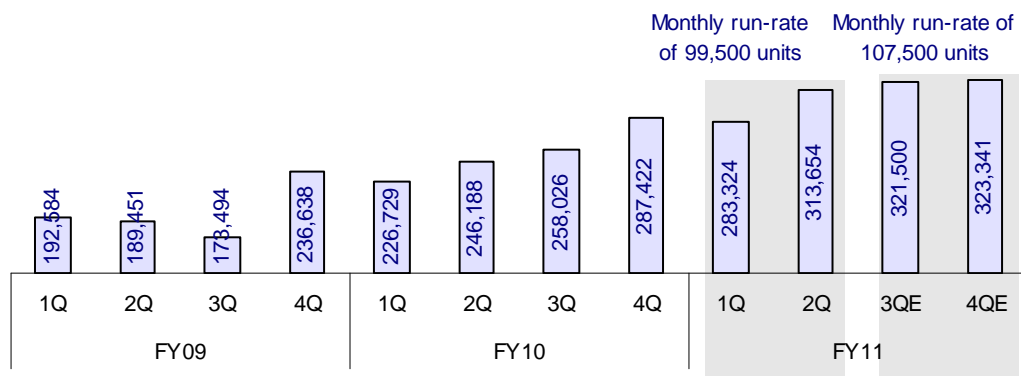


Source: Company/MOSL

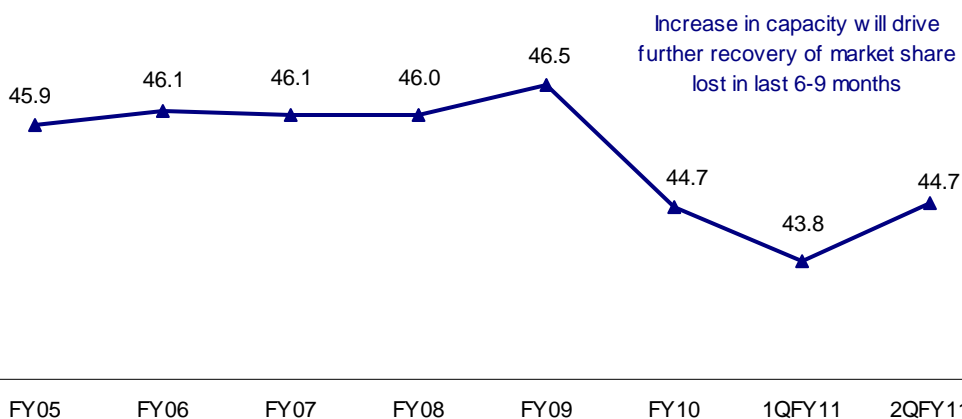
Demand continues to be robust, with festive demand expected to grow 25-30%

The management indicated that demand at the retail level continues to be very strong, with festive season demand expected to be 25-30% higher than the last festive season. This is reflected in discounts being ~18% lower during this festive season (~12% lower in 2QFY11 at Rs8,500/unit). With de-bottlenecking of capacity by 10,000 units/month from October 2010, it is well placed to grow and recover part of its lost market share in 2HFY11. We estimate 2HFY11 volume growth at 8% over 1HFY11 and 18% YoY. Further, the company is focusing on commissioning brownfield expansion of 0.25m cars at Manesar by 3QFY12 and additional 0.25m capacity by 1QFY13, increasing total capacity to 1.7m units.

Momentum in volumes to improve in 2HFY11



Trend in Domestic PV market share (%)



Source: Company/MOSL

Higher operating leverage to offset impact of RM costs and adverse forex movement

The company expects steel prices to remain at current levels in 2HFY11. However, other commodity prices could increase in 2HFY11. This coupled with adverse forex movement (~12.5% of total imports (~25% of direct) hedged for 2HFY11) would put pressure on cost and margins in 2HFY11. However, the management expects higher operating leverage to offset the impact of cost push and adverse forex movement. This coupled with reduction in discounts due to strong demand would also support margins. The management has no plans to increase vehicle prices in domestic/export markets to offset cost push and adverse forex movement. It had increased prices by ~1% in April 2010 and 1-1.5% in August 2010.

Other highlights of results / conference call with the management

- In exports, Maruti is focusing on non-EU markets to offset the decline in EU exports. The share of non-EU markets in exports has increased to 60% in 2QFY11 as against 38% in 1QFY11 and 20% in 2QFY10.
- It has hedged ~80% of total exports and 25% of direct imports (~12.5% of total imports) for 2HFY11. Further, it has not yet hedged its FY12 exposure and is exposed to forex volatility.
- The company benefited by Rs80m in 2QFY11 by replacement of diesel-run unit with gas-based power plant at Manesar. It expects savings of Rs160m in 2HFY11.
- Financing (% of volumes) has improved to 70% in 2QFY11 v/s 65.6% in 1QFY11.
- Other operating income increased 21.8% YoY (~33.7% QoQ) to Rs1.34b, driven by Rs170m from scrap sale (increased production), forex gain of Rs100m and cash discount of Rs180m due to early vendor payment.
- It maintained capex guidance of Rs28b in FY11 as against capex of Rs5b in 1HFY11.

Valuation and view

We downgrade our EPS estimates by ~3.5% to Rs81.8 for FY11 and to Rs99.2 for FY12 to factor in the cost push. Maruti has outperformed the Sensex by 5% over the last six months (after underperforming by 15% over 12 months) driven by strong momentum in volumes. While it has lost market share since 3QFY10 due to capacity constraints, we believe capacity augmentation through de-bottlenecking will drive recovery of lost market share. We estimate gradual improvement in EBITDA margin from 1HFY11 levels of 10.4% to 10.6% in 2HFY11 and 10.9% in FY12, driven by higher operating leverage. However, adverse forex movement remains a concern, especially for FY12, as total exposure remains unhedged. The stock trades at 15.6x FY12E EPS and 14.5x FY12E consolidate EPS. Maintain **Buy**, with a target price of Rs1,711 (~12x FY12E cash EPS - median cash P/E since listing).

Maruti Suzuki: an investment profile

Company description

Maruti Suzuki is the largest passenger vehicle manufacturer in India, with 1.2m units. It dominates the cars segment with ~50% market share (ex-Nano). It is also emerging as the global export hub of small cars for Suzuki, with world strategic model A-Star exclusively produced in India.

Key investment arguments

- Strong volume momentum to continue in FY11, driven by estimated 26% growth in domestic volumes.
- Volume growth in domestic market driven by focus on tier-II cities and rural market.
- Improving product mix with increasing share of A2 and A3 segment, driven by newer products.

Key investments risks

- Increasing competition in the key A2 segment.
- Adverse forex movement may impact margins negatively.
- Higher royalty and strengthening of commodity prices could impact margins.

Recent developments

- Increased selling prices by 1-1.5% from 1 August 2010 across all models.

Valuation and view

- The stock trades at 15.6x FY12E EPS and 14.5x FY12E consolidate EPS.
- Maintain **Buy** with a target price of Rs1,711 (~12x FY12E cash EPS - median cash P/E since listing).

Sector view

- Passenger vehicle segment is expected to continue its growth momentum.
- With low car penetration levels in India, the upside potential for growth is tremendous.
- However, increasing competition poses a threat in the long term.

Comparative valuations

		Maruti	M&M	Tata Motors
P/E (x)	FY11E	19.0	16.6	10.2
	FY12E	15.6	14.7	8.8
EPS Gr (%)	FY11E	-5.7	23.7	363.1
	FY12E	21.3	12.7	16.4
RoE (%)	FY11E	16.7	23.7	42.3
	FY12E	17.4	22.3	34.9
EV/EBITDA (x)	FY11E	10.0	10.3	5.6
	FY12E	7.9	8.5	5.0

Shareholding pattern (%)

	Sep-10	Jun-10	Sep-09
Promoter	54.2	54.2	54.2
Domestic Inst	17.0	17.0	17.4
Foreign	20.2	20.2	21.8
Others	8.6	8.6	6.6

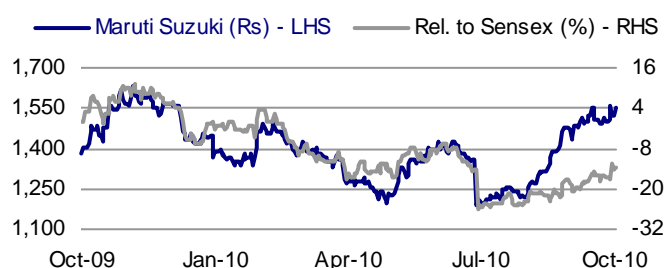
EPS: MOSL forecast v/s consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	81.8	85.1	-3.9
FY12	99.2	97.5	1.8

Target price and recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
1,551	1,711	10.3	Buy

Stock performance (1 year)



Financials and Valuation

INCOME STATEMENT						RATIOS					
(Rs Million)											
Y/E MARCH	2008	2009	2010	2011E	2012E	Y/E MARCH	2008	2009	2010	2011E	2012E
Net Sales	178,603	204,132	289,585	354,280	420,338	Basic (Rs)					
<i>Change (%)</i>	22.4	14.3	41.9	22.3	18.6	Adjusted EPS	59.2	46.1	86.7	81.8	99.2
Operating Other Income	4,851	4,942	6,646	8,699	9,380	EPS Growth (%)	9.1	-22.0	87.9	(5.7)	21.3
Total Income	183,454	209,074	296,231	362,980	429,718	Consol EPS	61.9	42.5	90.8	89.6	107.0
Total Cost	156,623	188,586	256,849	324,721	382,836	Cash EPS	78.8	70.6	115.3	116.4	142.6
EBITDA	26,832	20,489	39,382	38,258	46,882	Book Value per Share	291.2	323.4	409.5	481.8	571.6
<i>% of Net Sales</i>	14.6	9.8	13.3	10.5	10.9	DPS	5.0	3.5	6.0	6.9	8.1
Depreciation	5,682	7,065	8,250	10,013	12,544	Payout (Incl. Div. Tax) %	9.8	9.7	8.1	10.0	8.1
EBIT	21,150	13,424	31,132	28,245	34,339	Valuation (x)				17.3	14.5
Def Revenue Exp. / Others	-198	-223	-296	-223	-223	P/E	26.2	33.6	17.9	19.0	15.6
Interest & Finance Charges	596	510	335	368	312	Cash P/E	19.7	22.0	13.5	13.3	10.9
Other Income	3,974	5,386	4,964	5,063	6,125	EVEBITDA	15.0	19.7	9.7	10.0	7.9
Non-recurring Expense	-305	1,765	132	652	0	EV/Sales	2.3	2.0	1.3	1.1	0.9
PBT	25,030	16,758	35,925	32,511	40,375	Price to Book Value	5.3	4.8	3.8	3.2	2.7
Tax	7,722	4,571	10,949	9,298	11,709	Dividend Yield (%)	0.3	0.2	0.4	0.4	0.5
<i>Effective Rate (%)</i>	30.9	27.3	30.5	28.6	29.0	Profitability Ratios (%)					
PAT	17,308	12,187	24,976	23,213	28,666	RoE	20.6	13.0	21.1	16.7	17.4
<i>Change (%)</i>	10.8	-29.6	104.9	-7.1	23.5	RoCE	26.7	18.7	28.4	22.7	23.5
Adj. PAT	17,100	13,334	25,062	23,637	28,666	Leverage Ratio					
<i>Change (%)</i>	9.1	-22.0	87.9	-5.7	21.3	Debt/Equity (x)	0.1	0.1	0.1	0.1	0.0
BALANCE SHEET	(Rs Million)					CASH FLOW STATEMENT	(Rs Million)				
Y/E MARCH	2008	2009	2010	2011E	2012E	Y/E MARCH	2008	2009	2010	2011E	2012E
Share Capital	1,445	1,445	1,445	1,445	1,445	OP/(Loss) before Tax	21,264	10,391	31,020	28,468	34,562
Reserves	82,709	92,004	116,906	137,798	163,740	Int./Dividends Received	3,158	3,469	4,103	5,063	6,125
Net Worth	84,154	93,449	118,351	139,243	165,185	Depreciation & Amort.	5,682	7,065	8,250	10,013	12,544
Loans	9,002	6,989	8,214	7,214	6,714	Direct Taxes Paid	-8,647	-4,524	-10,279	-9,298	-11,709
Deferred Tax Liability	1,701	1,551	1,370	1,370	1,370	(Inc)/Dec in Wkg. Capital	-71	-999	-117	148	1,850
Capital Employed	94,857	101,989	127,935	147,827	173,269	CF from Oper. Activity	21,386	15,402	32,977	34,393	43,372
Gross Fixed Assets	72,853	87,206	104,067	120,943	160,943	Extra-ordinary Items	0	0	0	-652	0
Less: Depreciation	39,888	46,498	53,820	63,833	76,377	Other Items	0	0	0	0	0
Net Fixed Assets	32,965	40,708	50,247	57,110	84,566	CF after EO Items	21,386	15,402	32,977	33,742	43,372
Capital WIP	7,363	8,613	3,876	15,000	5,000	(Inc)/Dec in FA+C/WIP	-16,789	-16,136	-13,149	-28,000	-30,000
Investments	51,807	31,733	71,766	67,766	67,766	(Pur)/Sale of Invest.	-16,843	22,181	-38,787	4,000	0
Curr.Assets, Loans	30,979	55,100	37,724	51,434	66,391	CF from Inv. Activity	-33,632	6,045	-51,936	-24,000	-30,000
Inventory	10,380	9,023	12,088	15,911	18,837	Change in Networth	0	0	0	-338	-396
Sundry Debtors	6,555	9,378	8,099	11,934	14,128	Incl(Dec) in Debt	3,365	-3,339	1,881	-1,000	-500
Cash & Bank Balances	3,305	19,390	982	7,034	16,871	Interest Paid	-743	-579	-319	-368	-312
Loans & Advances	10,408	16,328	15,707	15,707	15,707	Dividends Paid	-1,299	-1,444	-1,011	-1,984	-2,327
Others	331	981	848	848	848	CF from Fin. Activity	1,323	-5,362	551	-3,689	-3,535
Current Liab. & Prov.	28,257	34,165	35,678	43,484	50,454	Incl(Dec) in Cash	-10,923	16,085	-18,408	6,052	9,837
Sundry Creditors	24,562	30,358	29,394	36,036	41,521	Add: Beginning Balance	14,228	3,305	19,390	982	7,034
Provisions	3,695	3,807	6,284	7,448	8,932	Closing Balance	3,305	19,390	982	7,034	16,871
Net Current Assets	2,722	20,935	2,046	7,951	15,937						
Appl. of Funds	94,857	101,989	127,935	147,827	173,269						

E: MOSL Estimates



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	Maruti Suzuki
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3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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