

## Maruti Suzuki

### Merger with SPIL

Maruti Suzuki (MSIL) is set to merge its associate company, Suzuki Power Train India Ltd. (SPIL), with itself subject to necessary legal and regulatory approvals. SPIL, a 70:30 JV between Suzuki Motor Corporation (SMC), Japan, and MSIL manufactures and supplies diesel engines and transmission components for vehicles. SPIL currently supplies ~90% of its production to MSIL. For FY2012, SPIL posted net sales of ₹4,551cr (13% of MSIL), EBITDA margin of 12.1% and PAT margin of 2.5% (lower due to higher depreciation costs, ~9% of net sales).

**Key highlights of the deal:** The merger will be effected through share swap in the ratio of 1:70, one share of MSIL for every 70 shares of SPIL, and there will be no cash outflow from MSIL. As per the deal, MSIL will issue 1.317cr fresh shares to SMC in lieu of SMC's 70% stake in SPIL. Consequent to the merger, SMC's shareholding in MSIL will increase to 56.2% from 54.2% currently. Also, MSIL's equity will dilute by 4.6% with the issuance of fresh shares. Based on yesterday's closing price of MSIL's shares, the deal has been attractively valued at 4.6x EV/EBITDA (FY2012 basis).

**Merger to be positive in the long run:** We believe the merger of SPIL with MSIL is positive for MSIL given that MSIL itself is setting up a new diesel engine facility (capacity of 300,000 units by FY2014) in Gurgaon. Further, with increasing trend of dieselization, the integration of SPIL will result in better control over diesel engine sourcing, provide flexibility in production planning and meeting the fluctuations in market demand. Additionally, single management control of diesel engine operations will result in better sourcing, localization and cost-reduction measures.

**Outlook and valuation:** We retain our estimates for MSIL and do not factor in the effect of merger on MSIL's financials as we wait for the detailed financials of SPIL. We expect MSIL to be the key beneficiary of reversal in interest rate cycle going ahead and expect EBITDA margin to improve by ~250bp over the next two years, mainly on account of currency hedging, operating leverage and better product mix. At ₹1,146, the stock is trading at 11.4x its FY2014E earnings. **We recommend a Buy rating on the stock with a target price of ₹1,510.** A steep increase in excise duty on diesel vehicles poses a key risk to our volume estimates.

#### Key financials – MSIL (Standalone)

Y/E March (₹ cr)	FY2011	FY2012E	FY2013E	FY2014E
<b>Net sales</b>	<b>35,849</b>	<b>34,706</b>	<b>42,683</b>	<b>48,736</b>
% chg	23.2	(3.2)	23.0	14.2
<b>Adj. profit</b>	<b>2,289</b>	<b>1,635</b>	<b>2,503</b>	<b>2,908</b>
% chg	(5.4)	(28.6)	53.1	16.2
Adj. OPM (%)	8.0	4.7	7.1	7.5
<b>EPS (₹)</b>	<b>79.2</b>	<b>56.6</b>	<b>86.6</b>	<b>100.6</b>
P/E (x)	14.5	20.3	13.2	11.4
P/BV (x)	2.4	2.2	1.9	1.6
RoE (%)	17.8	11.2	15.3	15.4
RoCE (%)	13.7	3.2	9.4	10.5
EV/Sales (x)	0.6	0.7	0.5	0.4
EV/EBITDA (x)	9.0	15.9	8.0	6.3

Source: Company, Angel Research

## BUY

CMP	₹1,146
Target Price	₹1,510

Investment Period	12 Months
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#### Stock Info

Sector	Automobile
Market Cap (₹ cr)	33,119
Net Debt (₹ cr)	(1,358)
Beta	0.7
52 Week High / Low	1,428/906
Avg. Daily Volume	82,828
Face Value (₹)	5
BSE Sensex	16,863
Nifty	5,116
Reuters Code	MRTI.BO
Bloomberg Code	MSIL@IN

#### Shareholding Pattern (%)

Promoters	54.2
MF / Banks / Indian Fls	21.7
FII / NRIs / OCBs	21.5
Indian Public / Others	2.6

Abs. (%)	3m	1yr	3yr
Sensex	(4.1)	(7.7)	10.7
Maruti Suzuki	(14.3)	(6.8)	5.6

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## Conference call – Key highlights

- Management has indicated that the merger of SPIL with MSIL was suggested by Board of Directors as part of the restructuring process.
- SPIL has an installed capacity of 300,000 diesel engines per year at Gurgaon. The company sold ~240,000 diesel engines to MSIL in FY2012.
- 90% of SPIL's sales are to MSIL and the balance to Suzuki Motorcycles.
- SPIL has an import content of ~30% currently with exposure to JPY and EUR.
- SPIL currently pays royalty at a rate of 4.8% of net sales. This structure is unlikely to change going ahead. Royalty payment is denominated in EUR.
- Gross block of SPIL stood at ₹3,204cr in FY2012. SPIL follows an aggressive depreciation policy and the depreciation expense is about 9.3% of net sales.
- SPIL's operating margin declined in FY2012 (12.1% in FY2012 as against 15.9% in FY2011) mainly due to labor strike at SPIL and adverse currency movements.

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Disclosure of Interest Statement	Maruti Suzuki
1. Analyst ownership of the stock	No
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 ₹1 lakh for Angel, its Group companies and Directors*

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