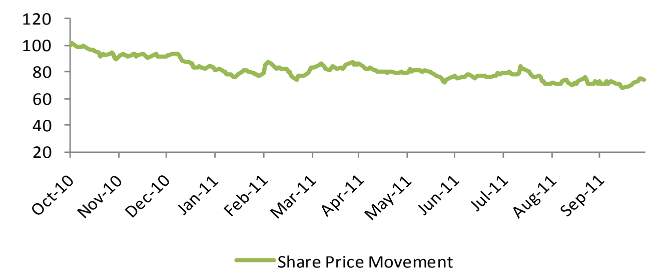
Q2 FY12 Results Update — Maruti Suzuki India Ltd

Recommendation	HOLD
CMP (31/10/2011)	Rs. 1,126
Target	Rs 1,200
Sector	Auto

Stock Details

BSE Code	532500
NSE Code	MARUTI
Bloomberg Code	MSIL IN
Market Cap (Rs. Crs)	32,590
Free Float (%)	45.79%
52- wk HI/Lo	1,599.9/1,010.45
Avg. volume BSE (Quarterly)	93,815
Face Value	Rs.5
Dividend payout	150%
Shares o/s (Crs)	28.89

Relative Performance	1Mth	3Mth	1Yr
Maruti	1.99%	-6.50%	-25.93%
Sensex	7.75%	-3.40%	-10.71%



Shareholding Pattern as of	30/09/2011
Promoters Holding	54.21%
Institutional (Incl. FII)	36.95%
Corporate Bodies	6.17%
Public & others	2.67%

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Dismal performance drags margins

Appreciating Japanese Yen, drop in volumes and increase in Raw material costs pulled down Maruti's EBITDA margin to 6.5% in Q2FY12 versus 9.8% in Q1FY12.

Key Highlights

- Maruti's top-line declined 14.4% YoY to Rs 7,832 crs and 8.2% QoQ due to the labour strike.
- The company's production at Manesar plant was disrupted due to labour issues and the prolonged strike caused loss of production of approximately 28,500 cars in Q2FY12.
- Maruti's volume was down 20% yoy and ~10% qoq. However, Average Realized Price (ARP) was up ~5% yoy and 1% qoq on account of change in product mix towards diesel cars which commands higher price.
- EBITDA margin dropped to its lowest in the past ten quarters to 6.5% in Q2FY12 versus 9.7% in Q1FY12. Appreciating JPY affected margins by 130 bps on both high royalty and raw material costs.
- PAT was significantly below expectation due to increase in other expenses and higher mark to market losses.
- Management is cautious about the demand outlook for near term owing to continuous increase in fuel prices and rising interest rates.

Valuation & Recommendation

Going forward, we believe that the outlook for FY12E stays challenging. Full impact of JPY appreciation on imported raw material is likely to be witnessed in H2FY12 as the forex exposure is unhedged. However, we expect conditions to improve from FY2013E onwards. At CMP of Rs 1,126 Maruti is trading at 17.7x and 13.9x FY2012E & FY2013E EPS of Rs 63.7 and Rs 81.1 respectively. **We recommend to HOLD the stock with a target price of Rs 1,200 per share as we believe that the downside risk is limited from current levels.**

Year	Net Sales	Growth %	EBITDA	Margin %	PAT	Margin	EPS	P/E	P/BV
FY 2010	28,958	40.9%	3,951	13.6%	2,498	8.62%	86.4	13.03	2.75
FY 2011	36,128	24.8%	3,664	10.1%	2,289	6.34%	79.2	14.22	2.35
FY 2012E	35,613	-1.4%	3,023	8.5%	1,841	5.17%	63.7	17.68	2.11
FY 2013E	38,858	9.1%	3,900	10.0%	2,345	6.03%	81.1	13.88	1.86

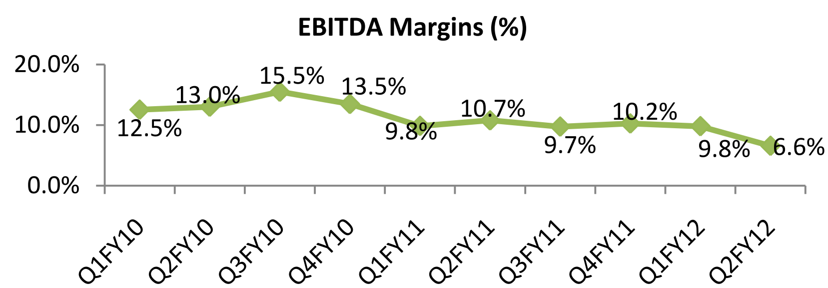
Performance Analysis

- Maruti Suzuki showed a feeble perfomance which was adversely affected by the prolonged labour strike at the Manesar plant that hit the company's production. Maruti Suzuki reported net sales at Rs 7,537 crs which was down 9.4% on QoQ basis and 15.7% on a YoY basis.

- Total production loss due to strike in the last two quarters has been around 83,300 units; out of which 28,539 were lost in Q2FY12. In October, the company has lost 33,000 of production volumes.

	Q2FY12	Q2FY12	*% change*	Q1FY12	*% change*
Units sold (nos)	252	313	*(19.6)*	281	*(10.4)*
Domestic	222	277	*(20.0)*	250	*(11.3)*
Exports	29	35	*(16.3)*	30	*(3.1)*
Realisation (Rs)	2,98,741	2,84,935	*4.8*	2,95,529	*1.1*

- Maruti's EBITDA was down to 6.5% from 9.5% in Q1FY12, lowest in the past 10 quarters. This was led by higher royalty and R/M costs and drop in sales due to labour unrest.



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	2QFY12	2QFY11	% YoY	1QFY12	% QoQ	
Gross Sales	8,398	9,987	(15.9)	9,301	(9.7)	
Excise Duty	860	1,050	(18.1)	981	(12.3)	
Net Sales	7,537	8,937	(15.7)	8,320	(9.4)	Net sales were lower due to drop in volumes
Other op Income	294	210	40.0	209	40.5	Increased due to write backs of Rs 60 crs during the quarter
Total Income	7,832	9,147	(14.4)	8,529	(8.2)	
Raw Material Consumed	6,157	7,076	(13.0)	6,692	(8.0)	
Employee Expenses	199	157	27.2	179	11.2	Although Management cut salaries of the workers on strike, addition of new workers led to higher operating expenses
Other Expenses	981	955	2.8	844	16.3	Increased on account of higher advertisement, higher royalty of Rs 50 crs and mark to market loss on commodities of Rs 26 crs.
TOTAL EXP	7,337	8,187	(10.4)	7,715	(4.9)	
EBITDA	494	960	(48.5)	814	(39.3)	
Margin (%)	*6.56*	*10.75*	*(419) bps*	*9.79*	*(323) bps*	EBITDA margin dropped to its lowest in the past ten quarters
Depreciation	266	238	11.8	242	9.9	Higher as Plant B at Manesar got commissioned in Q2FY12. Depreciation of about Rs 10 crs is included for the new plant
EBIT	228	722	(68.5)	572	(60.2)	
Other Income	118	134	(12.1)	180	(34.6)	Other income declined sequentially due to lower cash generation
Interest	10.9	10	12.3	6	89.9	Interest expenses increased due to increase in working capital.
PBDT	335	846	(60.5)	746	(55.2)	
Tax	94	248	(62.0)	197	(52.2)	
Profit After Tax	240	598	(59.8)	549	56.2)	
Margin (%)	*3.2*	*6.7*	*(350) bps*	*6.6*	*(341) bps*	
EPS	8.32	20.71	(59.8)	19.01	(56.2)	

Source: Company, Nirmal Bang Research

Takeaways from Con Call

- The company's board has given an approval to buy land in Gujarat for future expansion. The management, however, highlighted that plant construction in Gujarat is still some time away as they have sufficient capacities in the Manesar plant.
- Management indicated that retail volumes during Diwali were up by 2% yoy but demands for petrol models continue to remain sluggish. The company expects to report a flat YoY growth in November-March 2012.
- Owing to the increase in petrol prices, petrol car market has declined 11% YoY in the last 6 months, whereas the diesel car market has increased 24% YoY which indicates strong demand for diesel cars. Maruti is gearing up to take the advantage as already 22% of total volumes comes from diesel cars which will further ramp up once the production for new Swift begins.
- As per the management, the inventory level of the cars has reduced from 4-5 weeks to 2-3 weeks which is positive.
- The full impact of JPY appreciation on imported raw material is likely to be witnessed in H2FY12 as the forex exposure is unhedged. Management has stated that it has started heging its forex exposure at current currency rates.
- Management stated that production capacity is expected to return back to pre-strike levels by December 2011.
- The production capacity of Swift will increase from 10000-12000 per month in FY11 to approximately 16000-18000 per month in FY12E. The production capacity of D'zire will increase from 7000-8000 per month in FY11 to 10000 per month FY12E.

Outlook

Maruti's PAT was below expectation given increase in other expenses and mark to market losses. Management also remained cautious for the demand resulting from the continuous increase in fuel prices and rising interest rates. Moreover, increasing competition and labour unrest has resulted in loss of market share to the company.

While demand for petrol cars is sluggish, the full impact of JPY appreciation on imported raw material is likely to be witnessed in H2FY12 as the forex exposure is unhedged and promotion and discounts are likely to stay high amidst poor demand. We believe that given the current scenario the outlook for FY12 stays challenging. Consequently, we expect the company's net sales to decline 1.4% in FY2012E and EBITDA margin to be at 8.3% for FY2012E.

However, Maruti is ramping up its diesel sales with the launch of new Swift which has gained significant traction. The new Swift has already received a booking of more than 100,000 within few weeks of its launch. Therefore, we expect conditions to improve from FY2013E with ramping up of production, higher capacity and stable interest rates.

Using our intrinsic value method, we arrive at a target price of Rs. 1,200 per share for Maruti. At the CMP of Rs 1,126 Maruti is trading at 17.7x and 13.9x FY2012E & FY2013E EPS of Rs 63.7 and Rs 81.1 respectively. **We recommend to HOLD the stock with a target price of Rs 1,200 per share as we believe that the downside risk is limited from current levels.**

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Financials

Profitability (Rs. In Cr)	FY10A	FY11A	FY12E	FY13E
Net Sales	**28,958**	**36,128**	**35,613**	**38,858**
Other op income	665	912	930	967
Total Income	**29,623**	**37,040**	**36,543**	**39,826**
EBITDA	3,951	3,664	3,023	3,900
Dep	825	1,013	1,012	1,153
Op Income	**3,126**	**2,651**	**2,011**	**2,747**
Interest	34	24	20	25
Other Income	500	482	531	557
PBT	**3,593**	**3,109**	**2,522**	**3,279**
Tax	1,095	820	681	935
PAT	**2,498**	**2,289**	**1,841**	**2,345**
Minority Interest	0	0	0	0
Adj PAT	**2,498**	**2,289**	**1,841**	**2,345**
Shares o/s (No. in Cr.)	29	29	29	29
EPS	86	79	64	81
Adj EPS	**86**	**79**	**64**	**81**
Cash EPS	115	114	99	121

Quarterly (Rs. In Cr)	Dec.10	Mar.11	June.11	Sep.11
Net Sales	**9,277**	**9,864**	**8,320**	**7,537**
EBITDA	**902**	**1,010**	**814**	**494**
Dep	237	297	242	266
Op Income	**665**	**713**	**572**	**228**
Interest	0.4	6.4	5.8	10.9
Other Inc.	0.4	6.4	5.8	10.9
Extraordinary	1.0	2.0	3.0	3.0
PBT	**793**	**827**	**746**	**335**
Tax	228	167	197	94
PAT	**565**	**660**	**549**	**240**
EPS (Rs.)	19.6	22.8	19.0	8.3

Performance Ratio	FY10A	FY11A	FY12E	FY13E
Sales growth (%)	42.2%	24.8%	-1.4%	9.1%
EBITDA margin (%)	13.3%	9.9%	8.3%	9.8%
Adj.PAT margin (%)	8.4%	6.2%	5.0%	5.9%
ROE (%)	23.3%	17.8%	12.6%	14.2%
ROCE (%)	34.4%	27.3%	13.3%	16.1%

Valuation Ratio	FY10A	FY11A	FY12E	FY13E
Price Earnings (x)	13.03	14.22	17.68	13.88
Price / Book Value (x)	2.75	2.35	2.11	1.86
EV / Sales	1.15	0.86	0.89	0.81
EV / EBIDTA	8.41	8.44	10.54	8.08
Dividend Yield	0.5%	0.7%	0.7%	0.7%

Financial Health (Rs. In Cr)	FY10A	FY11A	FY12E	FY13E
Share Capital	145	145	145	145
Reserves & Surplus	11,691	13,723	15,293	17,351
Deferred Tax Liabilities	137	164	164	164
Share Holder's Funds	**11,972**	**14,032**	**15,602**	**17,660**
Total Loans	821	309	620	620
Total Liabilities	**12,794**	**14,341**	**16,222**	**18,280**
Net Fixed Assets	**5,412**	**6,958**	**8,946**	**10,294**
Investments	**7,177**	**5,107**	**5,107**	**5,107**
Sundry Debtors	810	893	1,425	1,538
Cash & Bank	98	2,509	2,085	2,562
Loans & Advances & Others	1,656	1,540	1,526	1,633
Inventories	1,209	1,415	1,644	1,774
Total	**3,772**	**6,356**	**6,681**	**7,507**
Current Liabilities & Provisic	**3,568**	**4,080**	**4,511**	**4,628**
Net Current Assets	205	2,277	2,169	2,879
Deferred Tax Assets	**0**	**0**	**0**	**0**
Total Assets	**12,794**	**14,341**	**16,222**	**18,280**

Cash Flow (Rs. In Cr)	FY10A	FY11A	FY12E	FY13E
Operating				
Net Income	3,593	3,109	2,522	3,279
Change in WC	(12)	421	(316)	(233)
Other Adjustment	(693)	(759)	(579)	(724)
CF from Operation	**2,887**	**2,771**	**1,626**	**2,322**
Investment				
Capex	(1,315)	(2,547)	(3,000)	(2,500)
Other Investment & interest	(3,468)	2,572	930	967
Total Investment	**(4,783)**	**25**	**(2,070)**	**(1,533)**
Financing				
Diviend Paid	(101)	(237)	(271)	(287)
Share Capital	0	0	0	0
Debt Repayment & Int	156	(537)	291	(25)
Total Financing	**55**	**(773)**	**20**	**(312)**
Net Chg. in Cash	(1,841)	2,023	(423)	477
Cash at beginning	1,939	98	2,509	2,085
Cash at end	**98**	**2,121**	**2,085**	**2,562**

Per Share Data	FY10A	FY11A	FY12E	FY13E
Reported EPS	86.42	79.21	63.70	81.13
Adjusted EPS	86.42	79.21	63.70	81.13
BV per share	409.5	479.8	534.2	605.4
Cash per share	3.4	86.8	72.2	88.7
Dividend per share	6.00	7.50	8.00	8.00

Source:Company data, Nirmal Bang Research

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