

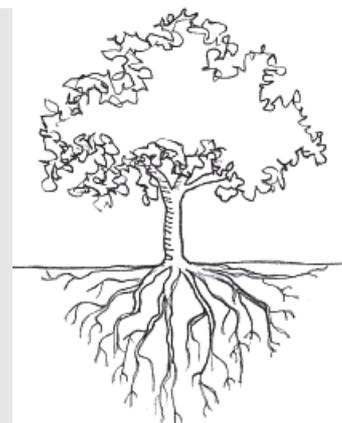
Ground Reality

Petrol cars still under stress; Manesar diesel car supplies at 50% of pre-lockout levels

Key takeaways from interactions with car dealers

We interacted with several passenger car dealers to get an update on the current trends with respect to demand, inventories, discounts, waiting period, etc. Following are the key takeaways:

- Petrol car demand continues to fall YoY despite low base
- Demand for diesel cars remain strong but key competition models witnessing pressures
- Diesel car supplies from Maruti's Manesar at ~50% of pre-lock out levels
- Inventory though lower in August remains at high levels
- MSIL raised discounts in September 2012 on key petrol models.



Petrol car demand continues to fall YoY despite low base

Demand for petrol cars continues to be under stress with lower enquiries and falling conversion rates. While August witnessed better MoM retail sales for petrol cars with higher focus by dealers (due to supply-side issues on diesel cars), the trend for September so far has not been encouraging.

Demand for diesel cars remain healthy but key competition models witnessing pressures

Enquiries and bookings for Maruti Suzuki's (MSIL) diesel car models (Swift, Dzire, Ertiga) remain healthy with YoY growth. But key competing models like Hyundai i20, VW Polo and Ford Figo are facing demand pressures. Players like Volkswagen, Skoda and Ford are offering incentives (worth INR15-20k per vehicle) on diesel variants as well.

Diesel car supplies from Manesar at ~50% of pre-lock out levels

Diesel car supplies from MSIL's Manesar plant have reached ~50% of pre-lockout levels. Dealers expect supplies to increase further during next week and reach normal levels by October 2012. Waiting period for Swift, Dzire and Ertiga (diesel models) is 2-4 months.

Inventory though lower in August remains at high levels

With better MoM sales and lower dispatches [Manesar lock-out, Alto F8 (800cc) phase out], inventory fell in August but remains at high levels. Around 90% of the inventory with dealers is petrol models. While overall inventory is around 4-5 weeks, inventory for petrol cars is around 6-8 weeks.

MSIL raised discounts in September on key petrol models

To bring down inventory to comfort levels of ~4 weeks, MSIL has further raised discounts by INR5,000/unit in the second week of September on key petrol models. This increase in discounts would be largely borne by the company (against normal practice of sharing with dealers). Previous increase in discounts was in mid-July 2012.

Valuation and view

The stock trades at 12.1x FY14E consol EPS of INR95.6 and 6.9x FY14E Cash EPS. Maintain **Buy** with price target of INR1,668 (~10x FY14 CEPS/17.5x FY14 consol EPS).

		Year	Net Sales	PAT	Cons.EPS	EPS	Cons.P/E	P/CE	P/BV	EV/	RoE	RoCE
		End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(X)	EBITDA	(%)	(%)
Actual Equity Sh. (m)	302.1	3/11A	369,199	23,101	82.4	-9.2	-	-	2.4	7.3	16.5	22.1
Dil. Equity Sh. (m)	302.1	3/12A	355,871	16,351	58.2	-29.4	19.9	12.1	2.2	10.4	10.8	13.2
52-Wk Range (INR)	1,428/906	3/13E	425,898	20,314	68.2	17.3	17.0	9.0	1.8	7.5	10.7	12.6
1,6,12 Rel.Perf.(%)	2/-14/5	3/14E	503,067	28,469	95.6	40.1	12.1	6.9	1.6	5.0	13.3	16.0
M.Cap. (INR b)	380.9	SPIL merger w.e.f 1/Apr/2012										
M.Cap. (USD b)	6.8											

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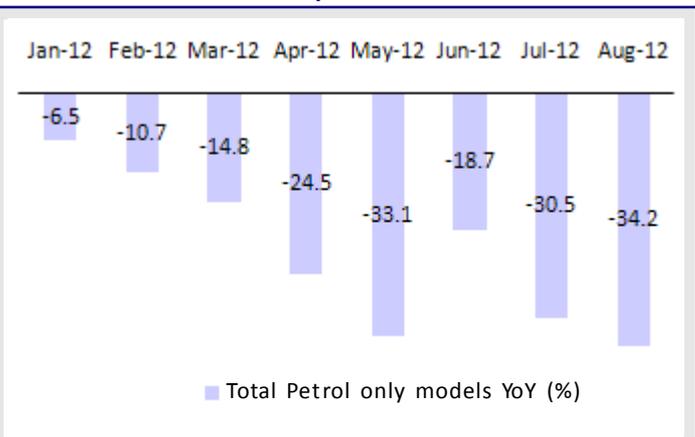
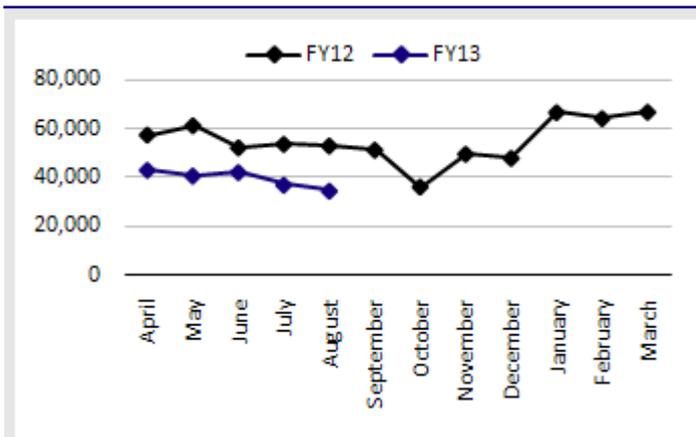
Demand for petrol cars continues to remain under stress

From regional trend perspective, Northern markets have been performing relatively well due to higher share of diesel sales followed by Southern and then Western markets

- Our channel checks indicate persistent weakness in demand for petrol cars led by (1) weak economic outlook, (2) higher ownership cost, and (3) poor consumer sentiment resulting in delay of purchases.
- Sentiments have been further impacted by the recent fuel price hike, and the news floating in the media prior to the hike. Conversion levels on key models have dropped sharply over the past few weeks. For instance, one of the Pune-based MSIL dealer saw a conversion rate of 6-7% for Alto (v/s normal 18-20%) and 17-19% for Wagon R (v/s normal ~30%).
- From a regional perspective, Northern markets have been performing relatively well, followed by Southern and then Western markets.
 - North market is predominantly a diesel market due to relatively higher share of upper segment cars and preference for diesel variants due to higher usage (road travel over long distances).
 - Western markets have been impacted due to higher linkages with financial markets.

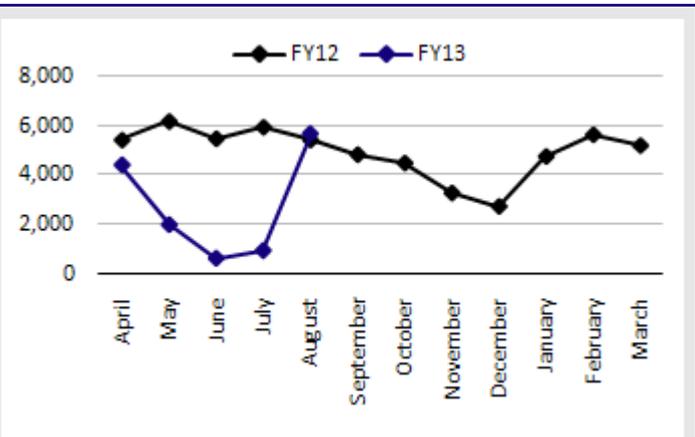
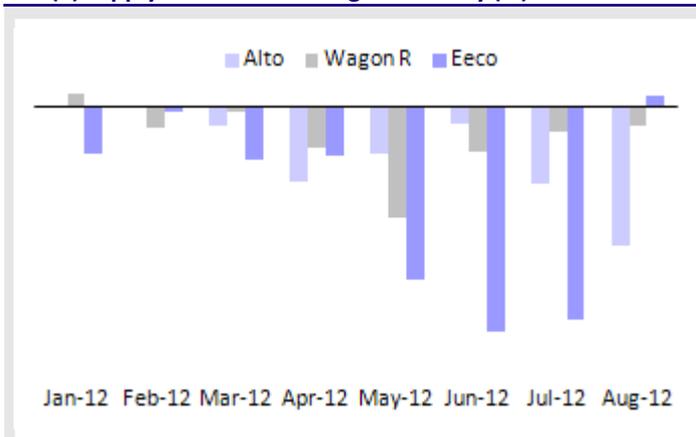
MSIL's petrol only models remain under pressure due to weak consumer sentiments on account of slow economic growth, delays in monsoon, and increase in ownership cost (units)

Since June 2011, retail sales of petrol only models started getting impacted with sharp increase in petrol prices - INRS/ litre in May 2011. However, despite low base, petrol model continues to remain under pressure with YoY decline.



Among key petrol models, Eco is witnessing the maximum stress due to (1) its predominant commercial applications, and (2) supply-side issues during June & July (%)

However, with supply-side issues getting resolved, Eco volumes seem to be normalizing (units)



Source: Company, MOSL

Decline in Alto sales accelerated with expected launch of new 800cc car

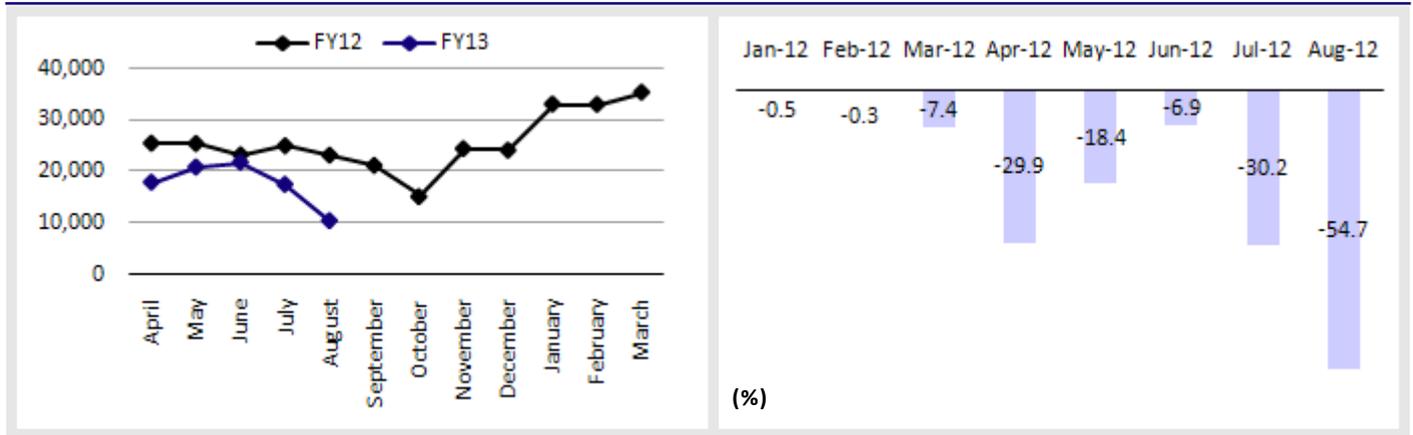
Media images of new 800cc car



Source: AutoCar India

- Dealers mentioned that MSIL's new 800cc car is expected to be launched during the first week of October 2012 (with wholesale dispatches to dealers starting from end-September).
- This new car is expected to have higher mileage and better looks, and should replace the existing Alto 800cc (Alto F8 model), which contributes ~40% of Alto sales.
- Since August, production and supplies of the existing Alto F8 model have been stopped; however, the existing stock remains with dealers which is expected to be sold out by September-end.

Decline in Alto sales accelerated over July/Aug with expected launch of new 800cc small car in Oct, 2012

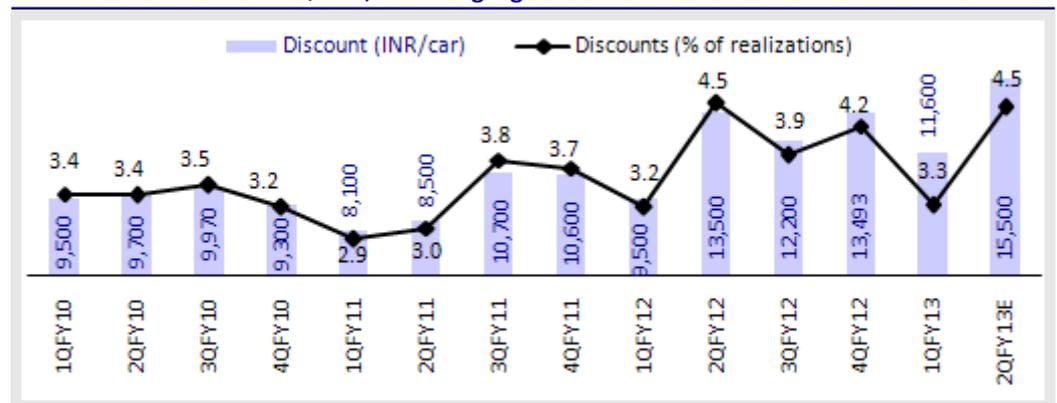


Source: Company, MOSL

Discounts up further INR5,000 on key petrol models

- In the second week of September, MSIL has further increased discounts on key petrol models by INR5,000 per vehicle to INR35,000 for Wagon R and INR25,000 for Alto K10 LXi.
- Dealers also stated that the INR5,000 per vehicle increase in discounts done in September 2012 would be borne largely by the company (against normal practice of sharing with dealers).
- While generally discounts are lowered with the onset of festive season, they have been increased this year as the company plans to improve dealers' financial health by lowering inventory (from current 4-5 weeks to ~4 weeks by end-September).
- Previous increase in discounts was done in mid-July 2012.

Discounts to increase in 2QFY13, reflecting higher discounts & lower diesel contribution



Source: Company, MOSL

MSIL's diesel car demand remains strong but key competing models seeing pressures

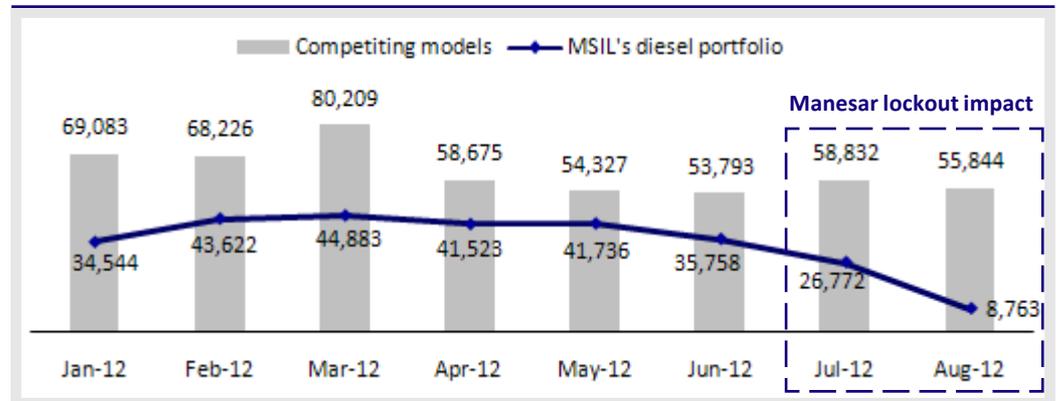
With pressures building up further in diesel segment, Volkswagen has also started offering free accessories or free AMC worth INR15k/INR19k respectively

- Our dealer interaction indicates continued traction in enquiries and bookings for MSIL's diesel variants with YoY growth. However, key competition models like Hyundai's i20 and Volkswagen's Polo are seeing demand pressures over the last few months. Players like Volkswagen, Skoda and Ford are also offering free insurance (worth INR15-20,000 per vehicle) even on diesel variants. Volkswagen has also started offering free accessories or free AMC worth INR15-19,000 respectively.
- MSIL may not have lost meaningful market share in favor of competing models during the Manesar lock-out. Our interaction indicates that around 65% of the demand for Swift comprises of replacement/additional demand. Hyundai i20 & Ford Figo seems to have been the major beneficiary of MSIL's supply side issues.

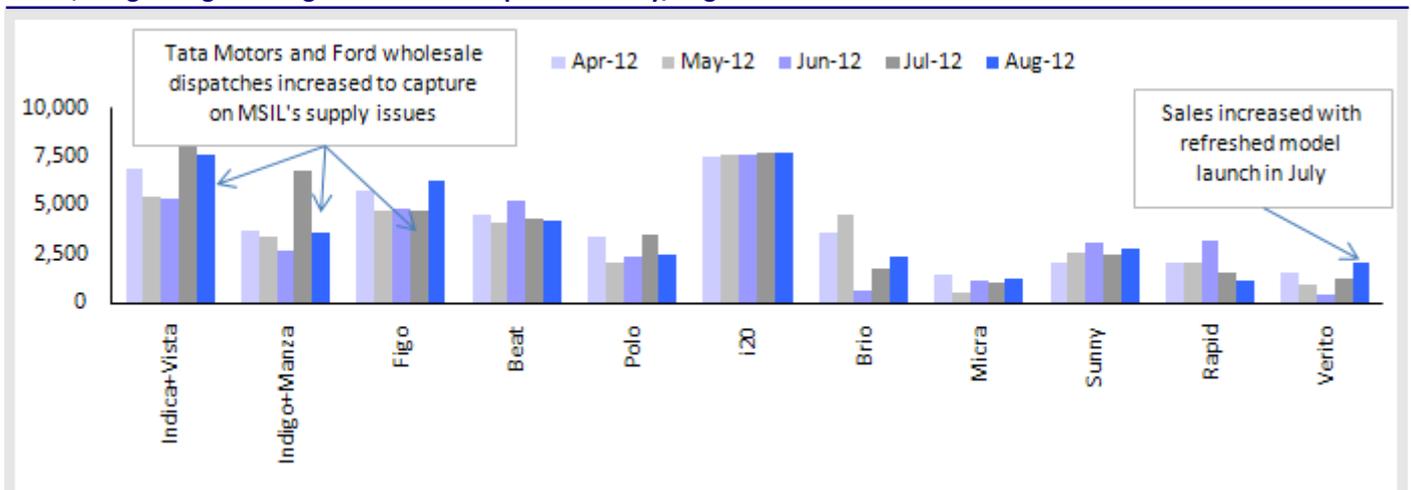
Diesel car supplies from Manesar at ~50% of pre-lock out levels

- Diesel car supplies from MSIL's troubled Manesar plant have resumed and reached ~50% of the pre-lockout levels. Dealers expect supplies to further increase through September and reach normal levels by October.
- Waiting period for Swift, Dzire & Ertiga (diesel models) is 2-4 months across markets. With supplies normalizing, dealers expect these models to be readily available during the festive season.

Dealer interaction indicates limited cancellations for MSIL's diesel cars on account of Manesar lock-out*



Indica, Indigo & Figo saw higher wholesale dispatches in July/August*



*Sales constitutes both of petrol and diesel variants

Source: Company, MOSL

Lukewarm customer response to new Ritz with facelift

- Dealers indicated that customer response to the recently launched Ritz diesel (facelift model) has not been very encouraging and different than towards the previous model.
- Price for the refreshed model is INR8,000 higher than its previous version.
- While dispatches of older variant have been stopped, dealers are carrying inventory (petrol variant) which is expected to be cleared by end-September/early October.
- Dealers expect the new petrol variant to be launched by October-end.

New look Ritz diesel launched in September



Key improvements over previous model

- Fuel efficiency has improved by 10%
- On the exterior, the front design has been changed.
- On the interiors, the car gets the red dual tone interiors on the mid and top end variants, and improved rear seating with additional lumbar support.
- Pricing starts at INR0.53m (ex-showroom Delhi), INR8,000 higher than the previous variant.

Source: Company, MOSL

Valuation and view

- Apart from permanently resolving labor trouble, MSIL faces three key challenges/headwinds in short term, viz, (1) pushing petrol vehicle sales without increasing discounts, (2) increasing diesel engine availability beyond 400,000 units in FY13-14 as diesel is the key volume driver, and (c) adverse JPY/INR movement significantly impacting margins.
- We expect MSIL to register volume growth of 5% in FY13 and 16% in FY14 (FY12-14E CAGR of 10%, FY11-14E CAGR of 2.7%).
- The stock trades at 12.1x FY14E consol EPS of INR95.6 and 6.9x FY14E Cash EPS. Maintain **Buy** with price target of INR1,668 (~10x FY14 CEPS/17.5x FY14 consol EPS).

Financials and Valuation

Income Statement		(INR Million)				
Y/E March	2010	2011	2012	2013E	2014E	
Total Op. Income	296,231	369,199	355,871	425,898	503,067	
Change (%)	41.7	24.6	-3.6	19.7	18.1	
Total Cost	256,883	333,363	330,742	389,352	452,348	
EBITDA	39,348	35,837	25,129	36,546	50,719	
Change (%)	92.0	-8.9	-29.9	45.4	38.8	
EBITDA Margins (%)	13.3	9.7	7.1	8.6	10.1	
Depreciation	8,250	10,135	11,384	18,191	21,517	
EBIT	31,098	25,702	13,745	18,355	29,202	
Def Revenue Exp. / Otr	-296	-257	0	0	0	
Interest	335	244	552	1,186	1,254	
Other Income	4,998	5,665	8,269	8,224	8,550	
Non-recurring Expense	132	292	0	0	0	
PBT	35,925	31,088	21,462	25,393	36,499	
Tax	10,949	8,202	5,111	5,079	8,030	
Effective tax Rate (%)	30.5	26.4	23.8	20.0	22.0	
PAT	24,976	22,886	16,351	20,314	28,469	
Change (%)	104.9	-8.4	-28.6	24.2	40.1	
% of Net Sales	8.6	6.3	4.7	4.9	5.8	
Adj. PAT	25,068	23,101	16,351	20,314	28,469	
Change (%)	88.0	-7.8	-29.2	24.2	40.1	

Balance Sheet		(INR Million)				
Y/E March	2010	2011	2012	2013E	2014E	
Share Capital	1,445	1,445	1,445	1,510	1,510	
Net Worth	118,351	138,675	151,873	190,053	214,633	
Loans	8,214	3,093	11,749	17,910	17,910	
Deferred Tax Liability	1,370	1,644	3,023	3,023	3,023	
Capital Employed	127,935	143,412	166,646	210,986	235,567	
Net Fixed Assets	50,247	55,294	61,321	104,464	112,947	
Capital WIP	3,876	14,286	20,000	15,000	15,000	
Investments	71,766	51,067	61,473	61,473	61,473	
Curr.Assets, Loans	37,724	63,563	80,227	91,664	116,165	
Inventory	12,088	14,150	17,965	18,670	22,052	
Sundry Debtors	8,099	8,933	9,377	12,835	15,161	
Cash & Bank Balances	982	25,085	24,362	31,635	50,428	
Loans & Advances	15,707	13,722	24,498	24,498	24,498	
Others	848	1,673	4,027	4,027	4,027	
Current Liab. & Prov.	35,678	40,798	56,376	61,615	70,019	
Sundry Creditors	29,365	35,540	49,391	53,231	59,997	
Provisions	6,313	5,258	6,985	8,384	10,022	
Net Current Assets	2,046	22,765	23,851	30,049	46,147	
Appl. of Funds	127,935	143,412	166,646	210,986	235,567	

E: MOSL Estimates

Ratios		(INR Million)				
Y/E March	2010	2011	2012	2013E	2014E	
Basic (INR)						
Adjusted EPS	86.7	79.9	56.6	67.2	94.2	
EPS Growth (%)	88.0	(7.8)	(29.2)	18.8	40.1	
Consol EPS	90.8	82.4	58.2	68.2	95.6	
Cash EPS	115.3	115.0	96.0	128.5	166.8	
Book Value per Share	409.5	479.8	525.7	629.1	710.5	
DPS	6.0	7.5	7.5	10.0	11.0	
Div. payout (%)	8.1	11.0	13.3	14.9	11.7	
Valuation (x)						
Consol. P/E			19.9	17.0	12.1	
Cash P/E			12.1	9.0	6.9	
EV/EBITDA			10.4	7.5	5.0	
EV/Sales			0.8	0.7	0.5	
Price to Book Value			2.2	1.8	1.6	
Dividend Yield (%)			0.6	0.9	0.9	
Profitability Ratios (%)						
RoE	21.1	16.5	10.8	10.7	13.3	
RoCE	28.4	22.1	13.2	12.6	16.0	
Leverage Ratio						
Debt/Equity (x)	0.1	0.0	0.1	0.1	0.1	

Cash Flow Statement		(INR Million)				
Y/E March	2010	2011	2012	2013E	2014E	
OP/(Loss) before Tax	31,020	26,437	13,745	18,355	29,202	
Int./Div. Received	4,103	3,595	8,269	8,224	8,550	
Depreciation	8,250	10,135	11,384	18,191	21,517	
Direct Taxes Paid	-10,279	-10,240	-3,731	-5,079	-8,030	
(Inc)/Dec in WC	1,327	4,171	-1,810	1,076	2,695	
CF from Oper. Activity	34,421	34,098	27,857	40,767	53,935	
(Inc)/Dec in FA	-14,593	-24,114	-23,125	-56,334	-30,000	
(Pur)/Sale of Invest.	-38,787	21,253	-10,406	0	0	
CF from Inv. Activity	-53,380	-2,861	-33,531	-56,334	-30,000	
Change in Network	0	0	-986	20,886	-565	
Inc/(Dec) in Debt	1,881	-5,123	8,656	6,161	0	
Interest Paid	-319	-278	-552	-1,186	-1,254	
Dividends Paid	-1,011	-1,733	-2,167	-3,021	-3,323	
CF from Fin. Activity	551	-7,134	4,951	22,840	-5,142	
Inc/(Dec) in Cash	-18,408	24,103	-723	7,273	18,793	
Add: Op. Balance	19,390	982	25,085	24,362	31,635	
Closing Balance	982	25,085	24,362	31,635	50,428	



N O T E S

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