MOTILAL OSWAL

25 April 2011

4QFY11 Results Update | Sector: Automobiles

Maruti Suzuki

BSE SENSEX	S&P CNX
19,584	5,875
Bloomberg	MSIL IN
Diluted Equity Shares (m)	289.0
52-Week Range (Rs)	1,600/1,126
1,6,12 Rel.Perf.(%)	8/-9/-13
M.Cap. (Rs b)	383.5
M.Cap. (US$ b)	8.6

CMP:Rs1,327 **TP:Rs1,625** **Buy**

YEAR END	NET SALES (RS M)	PAT (RS M)	Cons.EPS (RS)	EPS GR. (%)	Cons.P/E (X)	P/CE (X)	P/BV (X)	EV/ EBITDA	ROE (%)	ROCE (%)
3/10A	296,231	25,062	90.8	113.8	14.6	11.5	3.2	8.1	21.1	28.4
3/11A	370,401	23,310	82.4	-9.2	16.1	11.5	2.8	8.3	16.5	21.7
3/12E	427,658	26,415	95.5	15.8	13.9	9.9	2.4	7.5	16.3	21.1
3/13E	499,082	31,790	115.5	20.9	11.5	8.2	2.0	5.6	16.7	21.5

Maruti Suzuki's 4QFY11 performance was above estimates with EBITDA margins of 10% due to higher realizations and a change in accounting policy. Adjusted for accounting policy changes, operating performance was in line with our estimates. Key highlights include:

- Volumes grew 19.5% YoY (3.8% QoQ) to 343,340 units. Realizations rose by 2.4% QoQ (~0.3% YoY) to Rs287,288/unit, driven by a favorable market mix and forex movement (for exports). Net revenue grew 20% YoY to Rs99.1b.
- EBITDA margins improved by 50bp QoQ (down ~320bp YoY) to 10%, due to lower raw material costs (due to a change in accounting policy with respect to tools given to a vendor). Besides, lower tax provisioning (due to higher R&D costs) boosted PAT to Rs6.6b.
- The management indicated signs of a slowdown in retail volumes due to higher interest rates and fuel prices, resulting in a decline in footfalls and conversions. The management guided for 10-15% volume growth in FY12, though it would have capacity in place for volume growth of 15-20%.
- It expects raw material cost inflation as it negotiates for 1HFY12. This, along with higher R&D spends (from 1.1% in FY11 to 1.3-1.4% in FY12) will put pressure on margins. However, hedged forex exposure (~40% of FY12 forex exposure), higher operating leverage and lower tax due to higher R&D would dilute the impact of the cost inflation.

Valuation and view: We are downgrading FY12 S/A EPS by 1.6% to Rs91.4 and FY13 by ~1.2% to Rs110 to factor in higher raw material costs, R&D expenses, partial forex hedging and a lower tax rate. Our consolidated EPS for FY12 is downgraded by 5.2% to Rs95.5 and for FY13 by 4.8% to Rs110 to factor in no contribution from the insurance subsidiaries. The stock trades at 13.9x FY12E and 11.5x FY13E consolidated EPS and 9.9x FY12E and 8.2x FY13E CEPS. Maintain **Buy** with a target price of Rs1,625 (~10x FY13E CEPS).

Quarterly Performance (Rs Million)

Y/E March	FY10				FY11				FY10	FY11
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Total Volumes (nos)	226,729	246,188	258,026	287,422	283,324	313,654	330,687	343,340	1,018,365	1,271,005
Change (%)	17.7	29.9	48.7	21.5	25.0	27.4	28.2	19.5	28.6	24.8
Realizations (Rs/car)	279,640	286,349	284,226	286,508	284,151	284,935	280,529	287,288	284,363	284,249
Change (%)	13.8	12.9	8.0	7.5	1.6	-0.5	-1.3	0.3	10.4	0.0
Net Sales	**63,647**	**70,807**	**73,727**	**82,808**	**80,904**	**89,774**	**93,261**	**99,059**	**290,989**	**362,997**
Change (%)	33.9	46.6	60.6	30.7	27.1	26.8	26.5	19.6	41.9	24.7
Other Operating Income	1,283	1,232	1,302	1,437	2,158	1,699	1,683	1,863	5,242	7,404
Net Op. Revenues	**64,930**	**72,038**	**75,029**	**84,246**	**83,062**	**91,473**	**94,945**	**100,922**	**296,230**	**370,401**
Change (%)	33.6	44.3	60.3	31.0	27.9	27.0	26.5	19.8	41.7	25.0
EBITDA	**7,932**	**9,161**	**11,339**	**11,111**	**8,577**	**9,603**	**9,018**	**10,097**	**39,543**	**37,295**
As % of Sales	12.2	12.7	15.1	13.2	10.3	10.5	9.5	10.0	13.3	10.1
Non-Operating Income	2,165	1,100	913	790	1,002	1,340	1,283	1,199	4,968	4,823
Extraordinary Expense	0	0	0	0	652	0	0	0	0	652
Interest	63	60	84	129	80	97	4	64	335	244
Gross Profit	**10,034**	**10,202**	**12,168**	**11,772**	**8,847**	**10,846**	**10,297**	**11,232**	**44,176**	**41,223**
Depreciation	1,961	2,031	2,028	2,230	2,417	2,382	2,369	2,967	8,250	10,135
PBT	**8,073**	**8,171**	**10,140**	**9,542**	**6,430**	**8,464**	**7,928**	**8,266**	**35,925**	**31,088**
Tax	2,238	2,471	3,265	2,976	1,777	2,481	2,276	1,667	10,949	8,201
Effective Tax Rate (%)	27.7	30.2	32.2	31.2	27.6	29.3	28.7	20.2	30.5	26.4
PAT	**5,835**	**5,700**	**6,875**	**6,566**	**4,654**	**5,982**	**5,652**	**6,599**	**24,976**	**22,886**
Adjusted PAT	**5,835**	**5,700**	**6,875**	**6,566**	**5,125**	**5,982**	**5,652**	**6,599**	**24,976**	**23,366**
Change (%)	25.3	92.5	221.6	170.0	-12.2	5.0	-17.8	0.5	105.9	-6.4

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Robust volumes, higher realizations boost revenue

Net revenue grew 6.3% QoQ (~19.8% YoY) to Rs100.9b (against our estimate of Rs98.9b), driven by 3.8% QoQ (~19.5% YoY) improvement in volumes and 2.4% QoQ (~0.3% YoY) improvement in realizations. In 4QFY11, Maruti lost market share by 320bp QoQ (up ~180bp YoY) to 49.5% of the domestic passenger vehicle (PV) market (excluding the Nano).

Overall volume growth was driven by domestic volumes, which grew 4.2% QoQ (up 27.3% YoY) and 3.8% QoQ (down 26.4% YoY) export growth. European exports were under pressure but they were largely offset by strong in non-EU exports, resulting in an increase in the non-EU share of exports to ~60% of total exports.

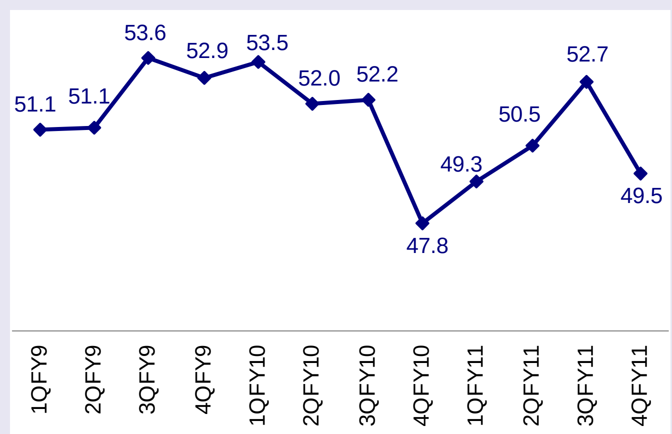
Improvement in realizations was driven by a price hike of 1-1.5% in January 2011, a better product mix (due to the launch of the SX4 diesel version and Kizashi), as well as higher export realizations (due to favorable movement of the euro) and stable discounts of Rs10,500/ unit (v/s Rs10,700/unit in 3QFY11 and Rs9,300/unit in 4QFY10).

Trend in volumes (units)

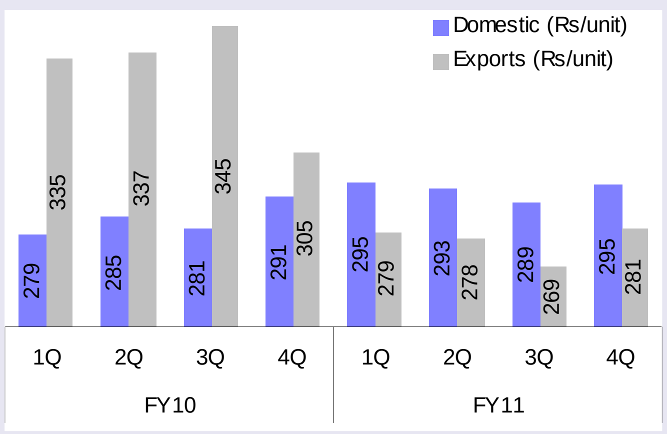
	4QFY11	4QFY10	YoY (%)	3QFY11	QoQ (%)
A1	7,503	8,434	-11.0	6,869	9.2
% of total	2.2	2.9		2.1	
MPV	41,897	32,466	29.0	43,639	-4.0
% of total	12.2	11.3		13.2	
A2	223,029	173,683	28.4	216,057	3.2
% of total	65.0	60.4		65.3	
A3	38,864	29,702	30.8	32,098	21.1
% of total	11.3	10.3		9.7	
UV	968	1,097	-11.8	891	8.6
% of total	0.3	0.4		0.3	
Exports	30,951	42,040	-26.4	31,160	-0.7
% of total	9.0	14.6		9.4	
Total Sales	**343,212**	**287,422**	**19.4**	**330,714**	**3.8**
Total PV (Incl Exports) MS (%)	**40.7**	**41.2**	**-50bp**	**44.7**	**-400bp**
Total Dom. Cars MS (%)	**47.5**	**46.4**	**100bp**	**51.7**	**-430bp**
Total Dom. Car (ex-Nano) MS (%)	**49.5**	**47.8**	**180bp**	**52.7**	**-320bp**

Source: Company/ SIAM/ MOSL

Trend in domestic car market share (ex-Nano) - (%)

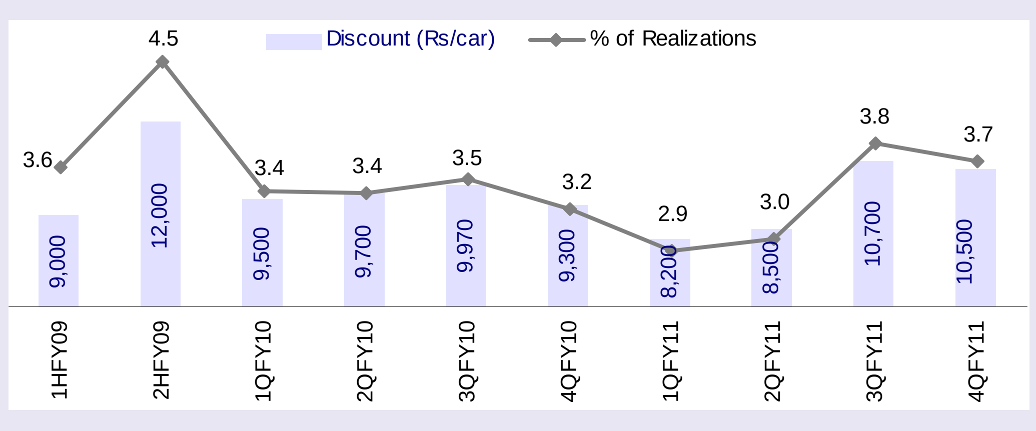


Trend in realizations (Rs '000)



Source: Company/SIAM/MOSL

Trend in discounts



Source: Company/SIAM/MOSL

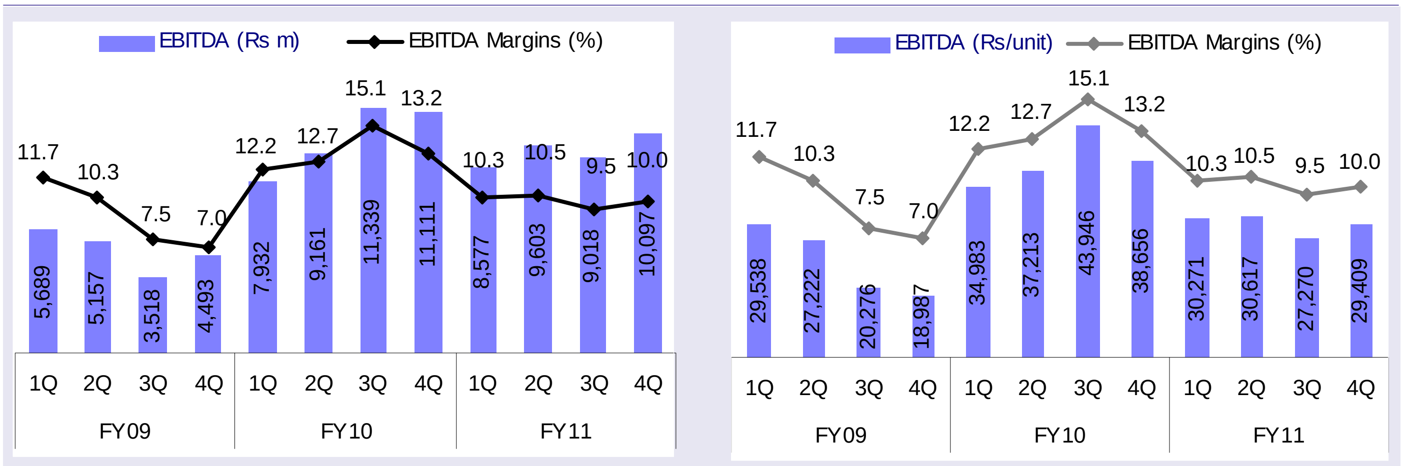
Higher realizations, change in accounting policy boost profitability

EBITDA margins improved by 50bp QoQ (down ~320bp YoY) to 10% (against our estimate of 9.8%) due to higher realizations and lower raw material costs (due to a change in accounting policy with respect to tools given to a vendor).

Raw material costs declined 50bp QoQ (up ~180bp YoY) due to change in accounting policy on tools given to vendor. Tools given to vendors were earlier amortized by vendors and added to raw material costs. However, Maruti changed its accounting (in line with IFRS) to depreciate in its own book, resulting in lower raw material costs but higher depreciation.

Staff costs fell 90bp QoQ (~30bp YoY) due to write-back of excess provisioning of employee benefits. Other expenses were higher by 50bp due to higher R&D and repairs.
EBITDA grew by 12% QoQ (de-growth of ~9% YoY) to Rs10b (against our estimate of Rs9.67b). However, higher depreciation (due to a change in accounting policy) restricted PBT growth to 4.3% QoQ (down ~13.4% YoY) to Rs8.26b (against our estimate of Rs8.5b). Lower tax provisioning due to higher R&D spends boosted reported PAT to Rs6.6b (against our estimate of Rs6.08b).

Trend in EBITDA



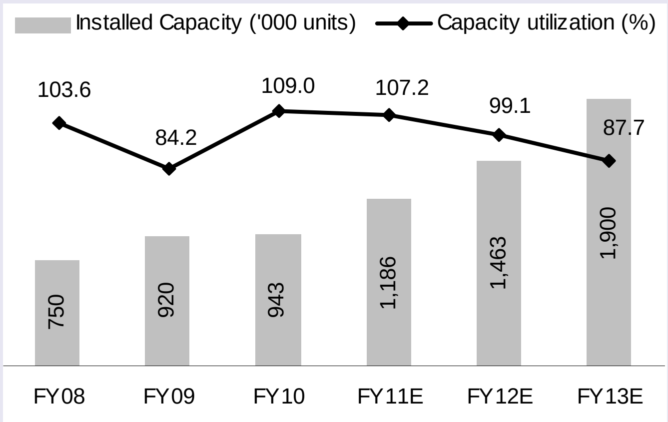
Source: Company/SIAM/MOSL

Demand shows signs of slowing, but MSIL prepared for positive surprises

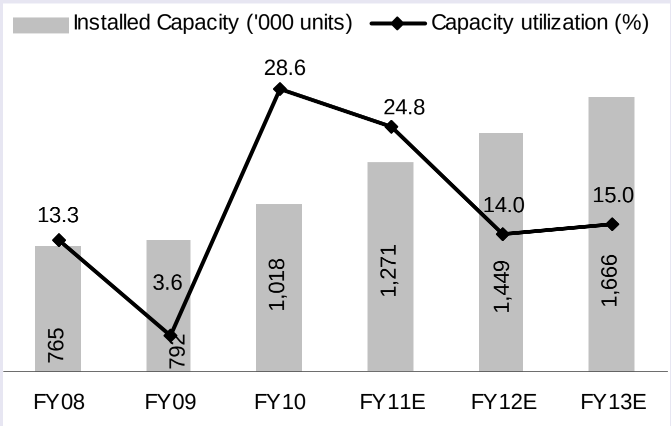
The management indicated that there were signs of slowing retail demand due to higher interest rates and fuel prices, resulting in a decline in footfalls and conversions. The management guided for FY12 volume growth of 10-15%.

However, the management said the company could post 15-20% growth by de-bottlenecking its capacity to 1.4m units (from 1.3m) from April 2011 and the bringing forward of the completion of phase-I of its brownfield expansion at Manesar (0.25m units) in 2HFY12. The company is strengthening its distribution with the aim of deepening its reach. In FY11 the company added 131 sales outlets in 111 new cities (to 933 outlets covering 666 cities) and added 206 service workshops in 60 new cities (to 2,946 workshops covering 1,395 cities). This is helping to increase the company's share of rural markets, which is ~20% of domestic volumes.

Trend in effective capacity

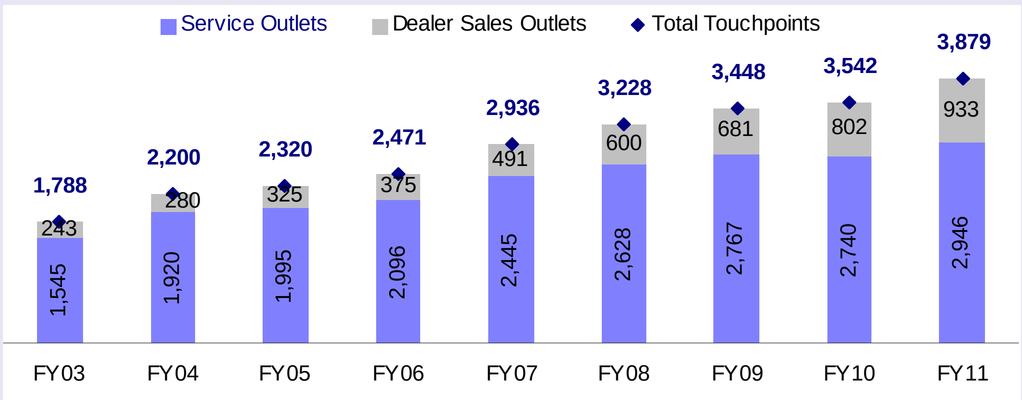


Trend in volumes



Source: Company/SIAM/MOSL

Maruti has further strengthened its distribution network



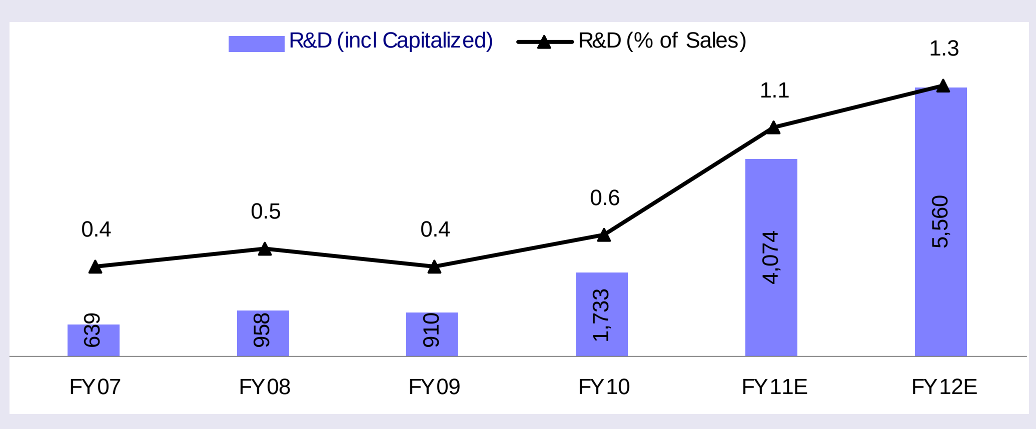
Source: Company/MOSL

R&D spend to increase as it aims at self-sufficiency for R&D

In FY11, Maruti increased its R&D expense to 1.1% of revenue (from 0.6% in FY10), of which Rs1.85b (~50bp) was expensed (v/s Rs1.1b in FY10 or 37bp). It is setting up an R&D facility at Rohtak, Suzuki's only such centre outside Japan, by investing up to Rs15b over 3-4 years. The aim is to make its R&D capability independent and self sufficient by 2012. Consequently, the company has created a team of ~1,200 engineers for its R&D effort.

As a result, its R&D investment is expected to increase, with FY12 guidance being 1.3-1.4% of revenue. With R&D enjoying 200% weighted deduction as per the income tax laws, the tax rate is expected to fall to 26-27% from 30% in FY10. This tax saving will contribute Rs5-6/share to EPS.

Trend in R&D



Source: Company/MOSL

Cancellation of insurance agency license impacts consolidated performance

The FY11 consolidated operating performance was impacted by the cancellation of the company's insurance agency license by the IRDA, resulting in a decline in its subsidiary contribution to consolidated PAT of Rs937m (v/s Rs1.27b in FY10). In July 2010, the IRDA cancelled Maruti's agency license for allegedly inflating claims and profiteering at the expense of insurance companies. In FY10 it would have sold at least 2.5m policies, as it had agencies for six general insurance firms. In FY10 the insurance subsidiaries contributed ~Rs600m to consolidated PAT (~2.3% of consolidated PAT).

The company is restructuring its insurance business model and considering options including setting up of an insurance company. However, there is no clarity on the time frame and hence we are not including contributions from the insurance subsidiaries in FY12 and beyond.

Other result highlights and a call with the management

- The management indicated that it did not envisage an impact on its production, unlike its peers, to due to problems in Japan.
- The company increased prices by ~1% from April 2011 in the domestic market and reduced its discount levels in April compared with March 2011.
- The company hedged ~40% of its FY12 forex exposure.
- In 4QFY11 financing was stable at 67% (percentage of volumes) but down from 70% in 2QFY11 and 4QFY10. This is a reflection of the company's increasing share of the rural markets to ~20%.
- In exports, Maruti is focusing on non-EU markets to offset a decline in EU exports. The share of non-EU countries in exports was 60% in 4QFY11.
- The management guided for capex of Rs40b in FY12 (against Rs22b in FY11), which is higher than our estimate of Rs30b due to the bringing forward of capacity addition in Manesar.

Downgrading EPS due to lack of clarity on the insurance business

- We are downgrading our consolidated EPS for FY12 by 5.2% to Rs95.5 and for FY13 by 4.8% to Rs115.5 to factor in no contribution from the insurance subsidiaries.
- Our standalone EPS has been marginally downgraded by 1.6% to Rs91.4 in FY12 and by ~1.2% to Rs110 in FY13 to factor in higher raw material costs, R&D expenses, partial forex hedging and a lower tax rate.
- We estimate FY12 volume growth of 14% and 15% growth in FY13, EBITDA margin decline of 30bp in FY12 (due to higher raw material and R&D expenses in FY12) to 9.8% and 50bp improvement in EBITDA margins in FY13 to 10.3%.

Revised forecast (Rs m)

	FY12E			FY13E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Domestic Volumes	1,313,977	1,314,009	0.0	1,511,074	1,511,110	0.0
Export Volumes	134,809	138,266	-2.5	155,031	159,006	-2.5
Total Volumes	**1,448,787**	**1,452,275**	**-0.2**	**1,666,105**	**1,670,116**	**-0.2**
Net Sales	418,244	417,759	0.1	489,623	488,611	0.2
EBITDA (%)	9.8	10.0	-22	10.3	10.6	-24
Net Profit	**26,415**	**26,854**	**-1.6**	**31,790**	**32,188**	**-1.1**
S/A EPS (Rs)	**91.4**	**92.9**	**-1.6**	**110.0**	**111.4**	**-1.2**
Consol EPS (Rs)	**95.5**	**100.8**	**-5.2**	**115.5**	**121.3**	**-4.8**

Source: MOSL

Valuation and view

Maruti has underperformed the Sensex by 9% over the past six months as its margins were under pressure due to the raw material cost push and adverse forex movement. We see limited downside to its margins from the current level, barring significant adverse forex movement.

With easing of capacity constraints, we expect Maruti to recover and defend its market share despite competitive pressure. We estimate gradual improvement in EBITDA margins from 9.8% in FY12 to 10.3% in FY13, driven by higher operating leverage, reduction in imports and stability in forex.

The stock trades at 13.9x FY12E and 11.5x FY13E consolidated EPS and 9.9x FY12E and 8.2x FY13E CEPS. Maintain **Buy** with price target of Rs1,625 (~10x FY13E CEPS).

Maruti Suzuki: an investment profile

Company description

Maruti Suzuki is the largest passenger vehicle maker in India and dominates the car segment with ~50% market share (excluding the Nano). It is also emerging as the global export hub of small cars for Suzuki, with the globally strategic model, A-Star, being exclusively produced in India.

Key investment arguments

- Strong volume momentum to continue in FY11, driven by an estimated 30% growth in domestic volumes.
- Volume growth in the domestic market driven by a focus on tier-II cities and the rural market.
- Improving product mix with increasing share of the A2 and A3 segment, driven by new 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 of cars by ~1% from April across all models.

Valuation and view

- The stock trades at 13.9x FY12E & 11.5x FY13E consol EPS and 9.9x FY12E & 8.2x FY13E CEPS.
- Maintain **Buy** with a target price of Rs1,625 (~10x FY13E CEPS).

Sector view

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

Comparative valuations

		Maruti	M&M	Tata Motors
P/E (x)	FY12E	13.9	15.9	8.0
	FY13E	11.5	14.0	7.2
EPS Gr (%)	FY12E	15.8	6.7	12.7
	FY13E	20.9	13.6	11.0
RoE (%)	FY12E	16.3	22.0	36.4
	FY13E	16.7	21.2	30.0
EV/EBITDA (x)	FY12E	7.5	9.3	4.5
	FY13E	5.6	7.8	3.9

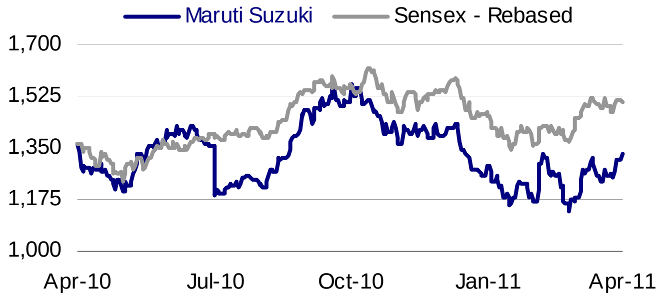
EPS: MOSL forecast v/s consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	95.5	95.4	0.1
FY12	115.5	117.7	-1.9

Target price and recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
1,327	1,625	22.5	Buy

Stock performance (1 year)



Shareholding pattern (%)

	Mar-11	Dec-10	Mar-10
Promoter	54.2	54.2	54.2
Domestic Inst	17.9	17.0	16.7
Foreign	19.3	21.1	21.2
Others	8.6	7.7	8.0

Financials and Valuation

Income Statement					(Rs Million)
Y/E March	2009	2010	2011	2012E	2013E
Total Income	**209,074**	**296,231**	**370,401**	**427,658**	**499,082**
Total Cost	188,586	256,849	333,106	385,725	447,508
EBITDA	**20,489**	**39,382**	**37,295**	**41,932**	**51,574**
% of Net Sales	*9.8*	*13.3*	*10.1*	*9.8*	*10.3*
Depreciation	7,065	8,250	10,135	12,145	15,160
EBIT	**13,424**	**31,132**	**27,160**	**29,787**	**36,414**
Def Revenue Exp. / Others	-223	-296	0	0	0
Interest & Finance Charges	510	335	244	192	178
Other Income	5,386	4,964	4,823	6,100	6,150
Non-recurring Expense	1,765	132	652	0	0
PBT	**16,758**	**35,925**	**31,088**	**35,696**	**42,386**
Tax	4,571	10,949	8,201	9,281	10,597
Effective Rate (%)	*27.3*	*30.5*	*26.4*	*26.0*	*25.0*
PAT	**12,187**	**24,976**	**22,886**	**26,415**	**31,790**
Adj. PAT	**13,334**	**25,062**	**23,310**	**26,415**	**31,790**
Change (%)	*-22.0*	*87.9*	*-7.0*	*13.3*	*20.3*

Balance Sheet					(Rs Million)
Y/E March	2009	2010	2011	2012E	2013E
Share Capital	1,445	1,445	1,445	1,445	1,445
Reserves	92,004	116,906	137,256	160,628	188,697
Net Worth	**93,449**	**118,351**	**138,701**	**162,073**	**190,142**
Loans	6,989	8,214	7,214	6,714	6,214
Deferred Tax Liability	1,551	1,370	1,370	1,370	1,370
Capital Employed	**101,989**	**127,935**	**147,285**	**170,157**	**197,726**
Gross Fixed Assets	87,206	104,067	114,943	154,943	181,943
Less: Depreciation	46,498	53,820	63,955	76,100	91,260
Net Fixed Assets	**40,708**	**50,247**	**50,988**	**78,843**	**90,683**
Capital WIP	8,613	3,876	15,000	15,000	10,000
Investments	31,733	71,766	67,766	67,766	67,766
Curr.Assets, Loans	**55,100**	**37,724**	**57,687**	**58,648**	**86,830**
Inventory	9,023	12,088	16,237	18,747	21,878
Sundry Debtors	9,378	8,099	12,178	14,060	16,408
Cash & Bank Balances	19,390	982	12,718	9,286	31,990
Loans & Advances	16,328	15,707	15,707	15,707	15,707
Others	981	848	848	848	848
Current Liab. & Prov.	**34,165**	**35,678**	**44,156**	**50,101**	**57,553**
Sundry Creditors	30,358	29,394	36,646	41,352	47,222
Provisions	3,807	6,284	7,510	8,749	10,331
Net Current Assets	**20,935**	**2,046**	**13,531**	**8,547**	**29,277**
Appl. of Funds	**101,989**	**127,935**	**147,285**	**170,157**	**197,726**

E: MOSL Estimates

Ratios					
Y/E March	2009	2010	2011	2012E	2013E
Basic (Rs)					
Adjusted EPS	**46.1**	**86.7**	**80.7**	**91.4**	**110.0**
EPS Growth (%)	-22.0	87.9	(7.0)	13.3	20.3
Consol EPS	**42.5**	**90.8**	**82.4**	**95.5**	**115.5**
Cash EPS	70.6	115.3	115.7	133.4	162.5
Book Value per Share	323.4	409.5	479.9	560.8	657.9
DPS	3.5	6.0	7.5	9.0	11.0
Payout (Incl. Div. Tax) %	9.7	8.1	11.1	9.8	10.0
Valuation (x)					
Consol. P/E	31.2	14.6	16.1	13.9	11.5
Cash P/E	18.8	11.5	11.5	9.9	8.2
EV/EBITDA	16.6	8.1	8.3	7.5	5.6
EV/Sales	1.7	1.1	0.9	0.7	0.6
Price to Book Value	4.1	3.2	2.8	2.4	2.0
Dividend Yield (%)	0.3	0.5	0.6	0.7	0.8
Profitability Ratios (%)					
RoE	13.0	21.1	16.5	16.3	16.7
RoCE	18.7	28.4	21.7	21.1	21.5
Leverage Ratio					
Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0

Cash Flow Statement					(Rs Million)
Y/E March	2009	2010	2011	2012E	2013E
OP/(Loss) before Tax	10,391	31,020	27,160	29,787	36,414
Int./Dividends Received	3,469	4,103	4,823	6,100	6,150
Depreciation & Amort.	7,065	8,250	10,135	12,145	15,160
Direct Taxes Paid	-4,524	-10,279	-8,201	-9,281	-10,597
(Inc)/Dec in Wkg. Capital	-999	-117	251	1,552	1,974
CF from Oper.Activity	**15,402**	**32,977**	**34,168**	**40,304**	**49,101**
Extra-ordinary Items	0	0	-652	0	0
CF after EO Items	**15,402**	**32,977**	**33,516**	**40,304**	**49,101**
(Inc)/Dec in FA+CWIP	-16,136	-13,149	-22,000	-40,000	-22,000
(Pur)/Sale of Invest.	22,181	-38,787	4,000	0	0
CF from Inv. Activity	**6,045**	**-51,936**	**-18,000**	**-40,000**	**-22,000**
Change in Networth	0	0	-369	-443	-541
Inc/(Dec) in Debt	-3,339	1,881	-1,000	-500	-500
Interest Paid	-579	-319	-244	-192	-178
Dividends Paid	-1,444	-1,011	-2,168	-2,601	-3,179
CF from Fin. Activity	**-5,362**	**551**	**-3,780**	**-3,735**	**-4,398**
Inc/(Dec) in Cash	**16,085**	**-18,408**	**11,736**	**-3,431**	**22,703**
Add: Beginning Balance	3,305	19,390	982	12,718	9,286
Closing Balance	**19,390**	**982**	**12,718**	**9,286**	**31,990**

N O T E S

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Disclosure of Interest Statement	Maruti Suzuki
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No