MOTILAL OSWAL

24 January 2012

3QFY12 Results Update | Sector: Automobiles

Maruti Suzuki

BSE SENSEX	S&P CNX
16,752	5,046

Bloomberg	MSIL IN
Diluted Equity Shares (m)	289.0
52-Week Range (INR)	1,345/906
1,6,12 Rel.Perf.(%)	13/11/5
M.Cap. (INR b)	336.0
M.Cap. (USD b)	6.7

CMP: INR1,163 TP: INR1,370 Buy

Year End	Net Sales (INR M)	PAT (INR M)	Cons.EPS (INR)	EPS GR. (%)	Cons.P/E (X)	P/CE (X)	P/BV (X)	EV/ EBITDA	ROE (%)	ROCE (%)
3/10A	296,231	25,068	90.8	113.8	12.8	10.1	2.8	6.9	21.1	28.4
3/11A	369,199	23,101	82.4	-9.2	14.1	10.1	2.4	7.3	16.5	22.1
3/12E	345,061	13,737	50.6	-38.7	23.0	13.5	2.2	11.2	9.2	12.0
3/13E	407,489	19,779	72.7	43.8	16.0	10.2	2.0	7.8	11.9	15.7

Maruti Suzuki (MSIL) has posted better than expected results for 3QFY12. EBITDA margin was 5.3% (v/s est. 5%), led by higher realization.

- Volumes declined 28% YoY (5% QoQ) to 239,528 units, impacted by the 14-day strike, translating into volume loss of 40,000 units. Realization improved by 7% QoQ (14% YoY) to INR319,948/unit (v/s est. INR300,233/unit), driven by (a) higher export realization, (b) better product mix, (c) price hike of INR2,000-10,000 on diesel variants in mid-November 2011, and (d) lower discounts (~INR1,300/unit QoQ), translating into revenue decline of 17% YoY to INR78.8b (v/s est. INR74.3b).
- EBITDA margin declined 100bp QoQ (420bp YoY) to 5.3% (v/s est. of 5%), impacted by (a) weak INR (net impact of 100bp QoQ), (b) negative operating leverage, and (c) ~20bp impact of 1HFY12 royalty.
- Lower tax rate of 21.3% (v/s est. of 27% and 28% in 2QFY12) restricted PAT to INR2.06b (v/s est. 1.55b), decline of 64% YoY.
- MSIL has hedged its 4QFY12 direct forex exposure for USD/JPY and USD/EUR. Its indirect exposure (vendor imports) and USD/INR for 4QFY12, and entire FY13 forex exposure remains unhedged.
- Short-term outlook is challenging, as (a) demand remains weak, and (b) impact of adverse INR movement on vendor imports would dilute the benefit of price increase and higher operating leverage in 4QFY12.
- We upgrade our consolidated EPS estimates by ~8% to INR50.6 for FY12 and by 5% to INR72.7 for FY13, driven by higher than estimated realizations. Our FY12 and FY13 estimates factor in volume growth of -14.7% and +15.8%, and EBITDA margin of 7% and 8.5%, respectively.
- The stock trades at 16x FY13E consolidated EPS and 10.2x FY13E cash EPS. Maintain **Buy** with a target price of INR1,370 (~12x FY13E cash EPS).

Quarterly Performance (INR Million)

Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	283,324	313,654	330,687	343,340	281,526	252,307	239,528	311,274	1,271,005	1,084,635
Change (%)	25.0	27.4	28.2	19.5	-0.6	-19.6	-27.6	-9.3	24.8	-14.7
Realizations (Rs/car)	284,151	284,935	280,529	287,288	295,529	298,741	319,948	321,744	284,249	309,192
Change (%)	1.6	-0.5	-1.3	0.3	4.0	4.8	14.1	12.0	0.0	8.8
Net Op. Revenues	**83,092**	**91,473**	**94,945**	**100,922**	**85,293**	**78,316**	**78,824**	**102,628**	**370,401**	**345,061**
Change (%)	28.0	27.0	26.5	19.8	2.6	-14.4	-17.0	1.7	25.0	-6.8
RM Cost (% of Sales)	77.1	77.4	78.4	77.9	78.5	78.6	79.2	80.2	77.7	79.2
Staff Cost (% of Sales)	1.9	1.7	2.4	1.5	2.1	2.5	2.7	2.2	1.9	2.3
Other exp. (% of Sales)	10.6	10.4	9.6	10.6	9.9	12.5	12.9	11.0	10.3	11.5
EBITDA	**8,574**	**9,593**	**9,018**	**10,097**	**8,144**	**4,942**	**4,172**	**6,796**	**37,295**	**24,054**
EBITDA Margins (%)	10.3	10.5	9.5	10.0	9.5	6.3	5.3	6.6	10.1	7.0
Non-Operating Income	1,004	1,350	1,283	1,199	1,801	1,177	1,604	1,522	4,463	6,104
Interest	80	97	4	64	58	109	174	141	244	481
Depreciation	2,417	2,382	2,369	2,967	2,425	2,664	2,989	3,037	10,135	11,114
PBT	**6,430**	**8,464**	**7,928**	**8,626**	**7,463**	**3,346**	**2,613**	**5,141**	**31,088**	**18,563**
Effective Tax Rate (%)	27.6	29.3	28.7	19.3	26.4	28.1	21.3	26.4	26.4	26.0
Adjusted PAT	**5,125**	**5,982**	**5,652**	**6,668**	**5,492**	**2,404**	**2,056**	**3,784**	**23,101**	**13,737**
Change (%)	-12.2	5.0	-17.8	1.6	7.2	-59.8	-63.6	-43.3	-7.5	-40.5

E:MOSL Estimates

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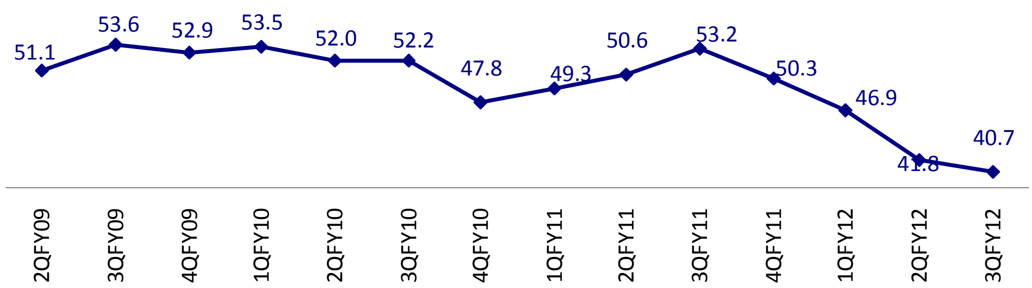
Higher realizations dilutes impact of lower volumes on revenues

- Volumes de-grew 5% QoQ (28%YoY) led by 5% QoQ (29% YoY) decline in domestic volumes and 7% QoQ (11% YoY) decline in export volumes. The company lost ~40,000 units in 3QFY12 due to 14 day strike in Oct-11 at Manesar and Suzuki Powertrain plant.
- Realizations improved by 7% QoQ (14% YoY) to INR319,948/unit (v/s est. INR300,233/unit), driven by a) higher export realization (+14% QoQ), b) better product mix owing to normalization of production for diesel models and c) price hike of INR2-10,000 on diesel variants in mid Nov-11, translating into sequentially flat revenue (17% YoY decline) at INR78.8b (v/s est. INR74.3b).
- Lower volumes due to strike, higher competitive intensity and demand slowdown resulted in 110bp QoQ (1250bp YoY) drop in market-share to 40.7% of domestic car market (ex-Nano) in 3QFY12.
- Discounts in 3QFY12 were lower by INR1,300/unit QoQ (higher by INR5,000/unit YoY) at INR12,200/car and is reflection of normalization of production of diesel models with no discounts on models like Swift/Dzire. Model wise discounts remains unchanged at higher levels.
- The management indicated that the magnitude of slowdown in the industry is more severe than in 2008-09. It is not seeing sustained retail momentum of Dec-11 in Jan-12.

Trend in volumes (units)

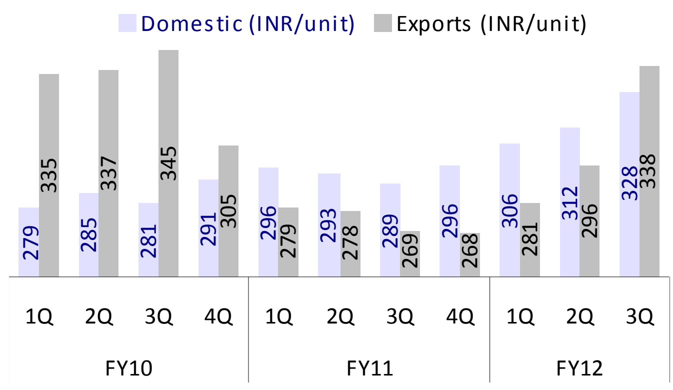
	3QFY12	3QFY11	YoY (%)	2QFY12	QoQ (%)
A1	4,600	6,869	-33.0	5,446	-15.5
% of total	1.9	2.1		2.2	
MPV	27,516	43,639	-36.9	37,616	-26.9
% of total	11.5	13.2		14.9	
A2	151,594	216,057	-29.8	152,266	-0.4
% of total	63.3	65.3		60.3	
A3	27,189	32,098	-15.3	24,680	10.2
% of total	11.4	9.7		9.8	
A4	216	0.0	NA	54	NA
% of total	0.1	0.0		0.0	
UV	688	891	-22.8	2,344	-70.6
% of total	0.3	0.3		0.9	
Exports	27,725	31,160	-11.0	29,901	-7.3
% of total	11.6	9.4		11.9	
Total Sales	**239,528**	**330,714**	**-27.6**	**252,307**	**-5.1**
Total PV (Incl Exports) MS (%)	**33.2**	**45.8**	**-1,260bp**	**34.5**	**-130bp**
Total Dom. Car MS (%)	**39.1**	**52.2**	**-1,310bp**	**41.1**	**-200bp**
Total Dom. Car (ex-Nano) MS (%)	**40.7**	**53.2**	**-1,250bp**	**41.8**	**-110bp**

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

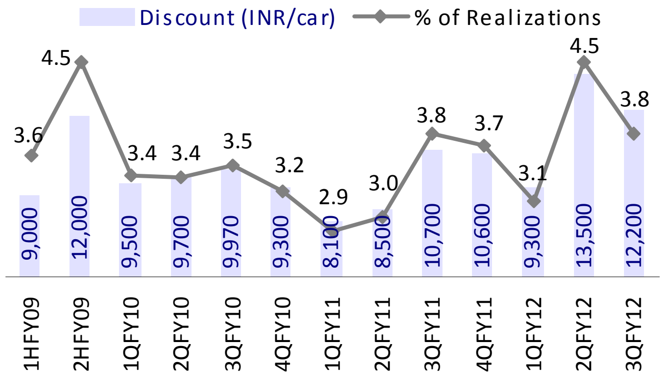


Source: Company/MOSL

Trend in realizations (INR '000)



Sequentially lower discounts led by better product mix

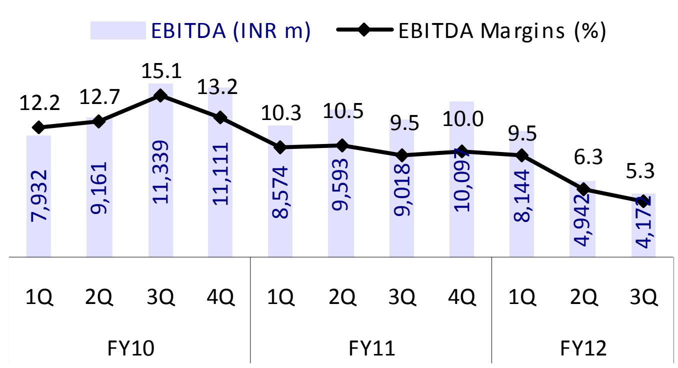


Source: Company/MOSL

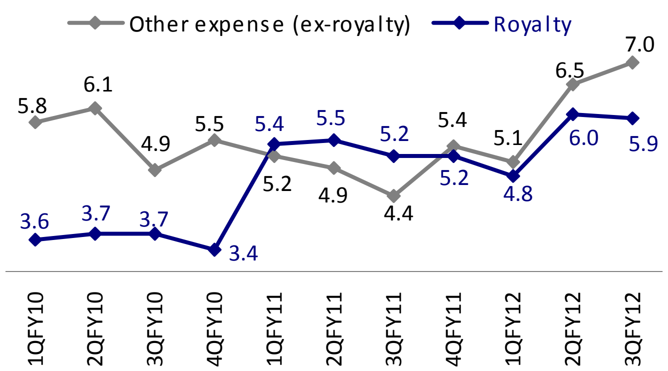
Adverse forex movement and negative operating leverage led to lowest ever margins

- EBITDA margins declined 420bp YoY (100bp QoQ) to 5.3% (v/s est. 5%), impacted by (a) lag impact of weak INR in 2QFY12 on vendor imports, (b) adverse currency movement hurting direct imports and royalty, and (c) negative operating leverage.
- RM cost (as % of sales) was higher 60bp QoQ (80bp YoY) impacted by adverse JPY/ INR movement.
- Selling distribution cost was down 60bp QoQ (+70bp YoY), the impact of which was more than offset by 90bp QoQ (190bp YoY) increase in other expenses, led by impact of (a) Yen appreciation on royalty, and (b) MTM loss on re-instatement of liabilities.
- Other expenses included an amount of INR190m relating to 1HFY12 royalty (20bp impact on margins).
- Net forex loss was sequentially higher by INR780m (1% of sales) and by INR2b YoY.
- It has hedged its 4QFY12 direct forex exposure for USD/JPY and USD/EUR. Its indirect exposure (vendor imports) and USD/INR for 4QFY12, and entire FY13 forex exposure remains unhedged.
- Also, it has not yet hedged its indirect imports (for vendors) despite getting approval from RBI in Oct-11. It plans to start hedging indirect imports when it gets good opportunity.
- EBITDA de-grew 16% QoQ (54% YoY) to INR4.2b (v/s est. INR3.7b). However, lower tax rate of 21.3% (v/s est. 27% v/s 28% in 2QFY12) restricted PAT decline to 64% YoY INR2.06b (v/s est INR1.55b).

Trend in EBITDA



Other expenses have increased in 3QFY12 (% of sales)



Source: Company/MOSL

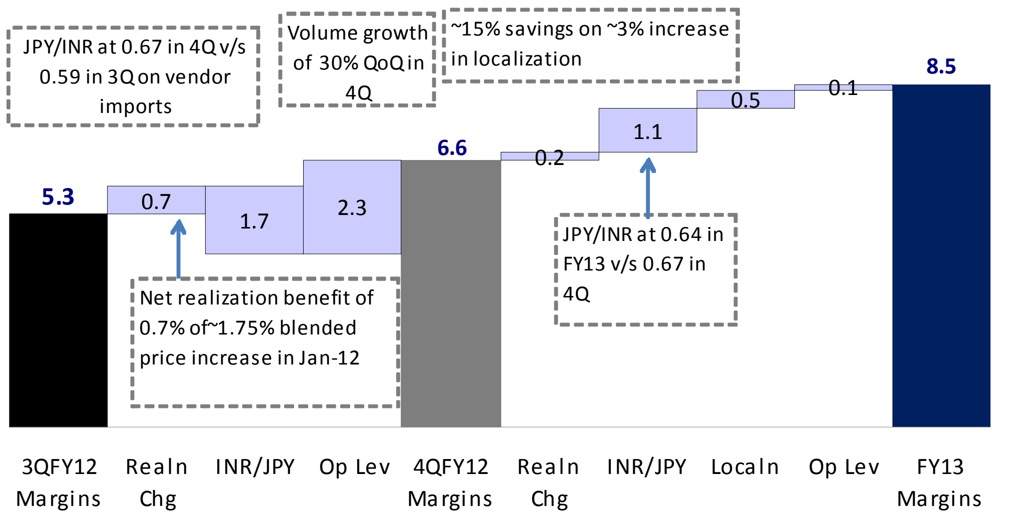
New launches and higher diesel engine availability to drive volumes, market share gains in FY13

- Maruti Suzuki will be launching a sub 4-meter version of Swift Dzire in the 1st week of February. Also, it is likely to commercially launch its new 7-seater MPV, Ertiga in 2-3 months.
- This, coupled with additional 0.1m p.a. diesel engine availability (for next 3 years), would drive volumes and market share gains. The additional engines will start coming from Feb-12, however the ramp-up in volumes will be gradual.
- This sourcing from Fiat, coupled with increase in capacity of Suzuki Powertrain will result in increase in availability of diesel engine from 20,000/month to 33,000/ month and would be key driver of volumes as diesel cars are in very high demand and will lead to reduction in waiting period for diesel variants of Swift (5-6 months) and Dzire (2-3 months).
- The commercial terms of the deal are not yet known. We believe there would some take or pay clause in the agreement. While demand for diesel vehicles is very strong currently, any levy of additional tax on diesel vehicles would adversely impact their demand.
- We believe there is upside potential to our FY13 volume growth estimate of ~16%, driven by (a) pick-up in base demand, (b) normalization of production, (c) new launches, and (d) higher availability of diesel engines.

Margins set to improve from 4QFY12 onwards from lows of 3QFY12

- The management indicated that EBITDA margins have bottomed in 3QFY12 and would improve hereon. It is focused on improving EBITDA margin to double-digit over next 2-3 years.
- EBITDA margins will be driven by (a) blended price hike of ~1.75% in Jan-12 (diluted by increased margins given to dealers) and (b) benefit of positive operating leverage which could drive 150-200bp improvement.

EBITDA Margin build-up to FY13 from 3QFY12 (%)



Source: Company/MOSL

- However, vendor imports in 4QFY12 will be impacted due to JPY appreciation in 3QFY12 (as it comes with a lag of a quarter) having impact of ~150bp.
- The ongoing vendor localization program is expected to reduce vendor imports by ~200bp every year for next 3 years, with potential savings of 15-20% on localized component, driving margin improvement of ~45bp p.a.
- We expect FY13 EBITDA margin to improve 320bp to 8.5% from 5.3% of 3QFY12, driven by (a) price hike in Jan-12, (b) better product mix with higher diesel engine availability, (c) improvement in operating leverage, and (d) savings from higher localization.

Other takeaways

- Depreciation in 3QFY12 was sequentially higher due to full impact of commissioning of phase-2 of Manesar plant against 1 month impact in 2QFY12.
- Maruti's current vehicle capacity stands at 1.65m units. It has put on hold expansion of Manesar Line-3 for time being.
- It incurred a capex of INR20b in 9MFY12 and is likely to incur another ~INR5b in 4QFY12. For FY13, it expects to invest INR25-30b. It has net cash of ~INR60b as of Dec-11.

Upgrading estimates by 5-8%

- We upgrade our consolidated EPS estimate for FY12E by 8% to INR50.6 and FY13E by 5% to INR72.7 as we model in (a) higher realizations driven by better product mix and favorable EUR/INR, (b) higher other income, and (c) lower tax assumption of 26% in FY12 and 26.5% in FY13 (unchanged).
- Our estimates model in volume de-growth of 14.7% in FY12 followed by 15.8% growth in FY13 (unchanged).
- We estimate EBITDA margin of 7% in FY12 (v/s 6.8% earlier) and 8.5% in FY13 (v/s 8.4% earlier).
- We factor in JPY/INR of 0.67 in 4QFY12 (v/s 0.657 in 3QFY12), translating into FY12 average of 0.616. For FY13, we assume JPY/INR of 0.64.

Revised Forecast (INR M)

	FY12E			FY13E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Domestic Volumes	968,492	968,492	0.0	1,128,293	1,128,293	0.0
Export Volumes	116,143	114,069	1.8	127,758	125,476	1.8
Total Volumes	1,084,635	1,082,561	0.2	1,256,051	1,253,769	0.2
Net Sales	335,360	325,259	3.1	396,901	385,179	3.0
EBITDA (%)	7.0	6.8	16	8.5	8.4	9
Net Profit	13,737	12,636	8.7	19,779	18,791	5.4
EPS (INR)	47.5	**43.7**	**8.7**	68	**65.0**	**5.3**
Consol EPS (INR)	50.6	46.8	8.1	72.7	69.3	4.9

Source: MOSL

Valuation and view

- Maruti has underperformed the Sensex by 2% over the past 12 months as both demand and profitability were under pressure. We see limited downside to its margins from the current level, barring significant adverse forex movement.

- With resolution of labor issues at Manesar, we expect Maruti to gradually recover and defend its market share despite competitive pressure.
- We expect gradual improvement in EBITDA margins from 7% in FY12 to 8.5% in FY13, driven by (a) price hike in Jan-12, (b) better product mix with higher diesel engine availability, (c) improvement in operating leverage, and (d) savings from higher localization.
- MSIL's earnings exhibit very high sensitivity to JPY/INR movement, posing uncertainty and volatility to its earnings. For every 5% JPY/INR movement, MSIL's EBITDA margins change ~110bp and EPS ~17%.
- The stock trades at 16x FY13 consol EPS, and 10.2x FY13 CEPS. Maintain **Buy** with price target of INR1,370 (~12x FY13E CEPS).

MSIL's FY13 earnings sensitivity to JPY

JPY/INR	Impact on Margins (bp)	S/A EPS	EPS Chg (%)
0.74	-353	31.8	-53.5
0.71	-230	44.6	-34.8
0.67	-112	56.8	-17.0
0.64	**0**	**68.4**	**0.0**
0.61	112	80.0	17.0
0.58	218	91.1	33.1
0.55	320	101.6	48.4

Source: MOSL

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

- Volumes momentum to remain intact in long run, despite short-term headwinds, resulting in 15.4% CAGR (FY12E-14E) in MSIL's 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 & 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

- Maruti showcased its new 7-seater MPV, Ertiga in Auto Expo, the vehicle is expected to be commercially launched in 2-3 months.

Valuation and view

- The stock trades at 16x FY13 consol EPS, and 10.2x FY13 CEPS.
- Maintain **Buy** with price target of INR1,370 (12x FY13 CEPS).

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 threat in long term.

Comparative valuations

		Maruti	M&M	Tata Motors
P/E (x)	FY12E	23.0	14.3	7.0
	FY13E	16.0	12.6	6.3
EPS Gr (%)	FY12E	-38.7	7.3	15.4
	FY13E	43.8	13.1	11.2
RoE (%)	FY12E	9.2	22.4	38.5
	FY13E	11.9	21.4	31.4
EV/EBITDA (x)	FY12E	11.2	6.8	4.0
	FY13E	7.8	5.4	3.5

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	50.6	62.1	-18.6
FY12	72.7	82.8	-12.2

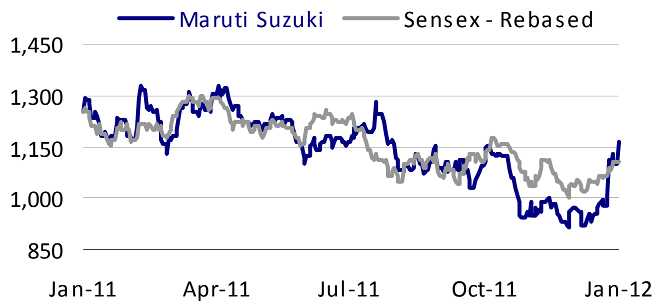
Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
1,163	1,370	17.8	Buy

Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	54.2	54.2	54.2
Domestic Inst	17.4	17.7	17.0
Foreign	19.5	19.3	21.1
Others	9.0	8.8	7.7

Stock performance (1 year)



Financials and Valuation

Income Statement					(INR Million)
Y/E March	2009	2010	2011	2012E	2013E
Total Income	209,074	296,231	369,199	345,061	407,489
Total Cost	188,586	256,883	333,363	321,007	373,026
EBITDA	20,489	39,348	35,837	24,054	34,464
% of Net Sales	9.8	13.3	9.7	7.0	8.5
Depreciation	7,065	8,250	10,135	11,114	13,210
EBIT	13,424	31,098	25,702	12,940	21,254
Def Revenue Exp. / Ot	-223	-296	-257	0	0
Interest & Finance Ch	510	335	244	481	569
Other Income	5,386	4,998	5,665	6,104	6,226
Non-recurring Expens	1,765	132	292	0	0
PBT	16,758	35,925	31,088	18,563	26,910
Tax	4,571	10,949	8,202	4,826	7,131
Effective Rate (%)	27.3	30.5	26.4	26.0	26.5
PAT	12,187	24,976	22,886	13,737	19,779
Adj. PAT	13,334	25,068	23,101	13,737	19,779
Change (%)	-22.0	88.0	-7.8	-40.5	44.0

Balance Sheet					(INR 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	137,230	148,261	164,659
Net Worth	93,449	118,351	138,675	149,706	166,104
Loans	6,989	8,214	3,093	7,593	7,593
Deferred Tax Liability	1,551	1,370	1,644	1,644	1,644
Capital Employed	101,989	127,935	143,412	158,943	175,341
Gross Fixed Assets	87,206	104,067	117,377	136,663	174,163
Less: Depreciation	46,498	53,820	62,083	73,197	86,407
Net Fixed Assets	40,708	50,247	55,294	63,466	87,756
Capital WIP	8,613	3,876	14,286	20,000	12,500
Investments	31,733	71,766	51,067	51,067	51,067
Curr.Assets, Loans	55,100	37,724	63,563	65,593	72,031
Inventory	9,023	12,088	14,150	15,126	17,863
Sundry Debtors	9,378	8,099	8,933	11,344	13,397
Cash & Bank Balance	19,390	982	25,085	23,727	25,376
Loans & Advances	16,328	15,707	13,722	13,722	13,722
Others	981	848	1,673	1,673	1,673
Current Liab. & Prov.	34,165	35,678	40,798	41,182	48,013
Sundry Creditors	30,358	29,365	35,540	34,406	39,537
Provisions	3,807	6,313	5,258	6,776	8,475
Net Current Assets	20,935	2,046	22,765	24,410	24,018
Appl. of Funds	101,989	127,935	143,412	158,943	175,341

E: MOSL Estimates

Ratios					
Y/E March	2009	2010	2011	2012E	2013E
Basic (Rs)					
Adjusted EPS	46.1	86.7	79.9	47.5	68.4
EPS Growth (%)	-22.0	88.0	(7.8)	(40.5)	44.0
Consol EPS	42.5	90.8	82.4	50.6	72.7
Cash EPS	70.6	115.3	115.0	86.0	114.1
Book Value per Share	323.4	409.5	479.8	518.0	574.8
DPS	3.5	6.0	7.5	8.0	10.0
Payout (Incl. Div. Tax)	9.7	8.1	11.0	16.8	14.6
Valuation (x)					
Consol. P/E			14.1	23.0	16.0
Cash P/E			10.1	13.5	10.2
EV/EBITDA			7.3	11.2	7.8
EV/Sales			0.7	0.8	0.7
Price to Book Value			2.4	2.2	2.0
Dividend Yield (%)			0.6	0.7	0.9
Profitability Ratios (%)					
RoE	13.0	21.1	16.5	9.2	11.9
RoCE	18.7	28.4	22.1	12.0	15.7
Leverage Ratio					
Debt/Equity (x)	0.1	0.1	0.0	0.1	0.0

Cash Flow Statement					(INR Million)
Y/E March	2009	2010	2011	2012E	2013E
OP/(Loss) before Tax	10,391	31,020	26,437	12,940	21,254
Int./Dividends Receiv	3,469	4,103	3,595	6,104	6,226
Depreciation & Amor	7,065	8,250	10,135	11,114	13,210
Direct Taxes Paid	-4,524	-10,279	-10,240	-4,826	-7,131
(Inc)/Dec in Wkg. Cap	-999	1,327	4,171	-3,003	2,041
CF from Oper.Activity	15,402	34,421	34,098	22,329	35,600
Extra-ordinary Items	0	0	0	0	0
CF after EO Items	15,402	34,421	34,098	22,329	35,600
(Inc)/Dec in FA+CWIP	-16,136	-14,593	-24,114	-25,000	-30,000
(Pur)/Sale of Invest.	22,181	-38,787	21,253	0	0
CF from Inv. Activity	6,045	-53,380	-2,861	-25,000	-30,000
Change in Networth	0	0	0	-393	-492
Inc/(Dec) in Debt	-3,339	1,881	-5,123	4,500	0
Interest Paid	-579	-319	-278	-481	-569
Dividends Paid	-1,444	-1,011	-1,733	-2,312	-2,890
CF from Fin. Activity	-5,362	551	-7,134	1,314	-3,951
Inc/(Dec) in Cash	16,085	-18,408	24,103	-1,358	1,649
Add: Beginning Balar	3,305	19,390	982	25,085	23,727
Closing Balance	19,390	982	25,085	23,727	25,376

N O T E S

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