

April 30, 2012

Surjit Arora
surjitarora@plindia.com
+91-22-66322235

Rating	Accumulate
Price	Rs1,397
Target Price	Rs1,460
Implied Upside	4.5%
Sensex	17,187
Nifty	5,209

(Prices as on April 28, 2012)

Trading data

Market Cap. (Rs bn)	403.7
Shares o/s (m)	288.9
3M Avg. Daily value (Rs m)	1051.1

Major shareholders

Promoters	54.21%
Foreign	19.35%
Domestic Inst.	17.38%
Public & Other	9.06%

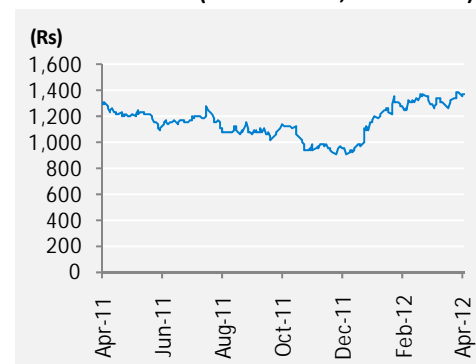
Stock Performance

(%)	1M	6M	12M
Absolute	7.0	24.1	6.1
Relative	8.3	27.0	16.2

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	85.0	87.5	-2.9
2014	101.3	110.1	-8.0

Price Performance (RIC: MRTI.BO, BB: MSIL IN)



Source: Bloomberg

■ **Operating performance disappoints; higher other income boosts profitability:** Top-line grew by 16.2% YoY at Rs11.7bn (PLe: Rs11.9bn) led by 11.3% YoY increase in realization/vehicle and 4.4% YoY increase in volumes. Average realization/vehicle was disappointing, with only 1.4% QoQ growth despite product mix skewed towards Diesel (~29% of volumes). This is on account of discounts on petrol vehicles which impacted realisations by 0.5%. MSIL's EBITDA was impacted by Rs2bn on account of vendors' compensation (Yen denominated indirect imports) for Q3FY12 (impacts with a lag of a quarter) in Q4FY12. This restricted the expansion in EBITDA margins to 150bps sequentially at 7.3%. Adjusted for the same, the EBITDA margins could have been ~9.0%. Reported EBITDA declined by 10.5% YoY at Rs8.6bn (PLe: Rs9.3bn). On account of higher other income (up 147.6% YoY) on account capital gains on FMPs, the decline in PAT was restricted to 3% which was ahead of PLe of Rs5.9bn.

■ **Yen hedging likely to improve margins by at least 100bps in FY13E:** MSIL has hedged both its direct + indirect Yen exposure to the tune of 40% of FY13E requirement. Our sense is that the Yen has been hedged upwards of ¥80/\$ (Q4FY12 average was ¥78/\$). As a result, from Q1FY12 onwards, the lag effect of vendors' import (Rs2bn for Q4FY12) would not be recurring in nature. This, in our view, can easily add around ~100-120bps to the EBITDA margins in FY13E.

■ **Outlook & Valuation:** We estimate a 16% and 10% volume growth for MSIL in FY13E and FY14E, respectively. We expect the margins to improve by ~200bps over the next two years, mainly on account of currency hedging, operating leverage and better product mix. Given the sharp run-up in the stock by ~30% since our upgrade in September 2011, the valuations at 16.4x FY13E EPS and 13.8x FY14E EPS seems to have factored in majority of positives. However, on account of margin as well as volume improvement in sight, we maintain our '**Accumulate**' rating on the stock with a 1-year target price of Rs1,460/share.

Key financials (Y/e March)

	2011	2012	2013E	2014E
Revenues (Rs m)	366,184	355,871	436,303	491,112
Growth (%)	23.6	(2.8)	22.6	12.6
EBITDA (Rs m)	37,037	25,130	38,376	45,861
PAT (Rs m)	23,538	16,352	24,560	29,282
EPS (Rs)	81.4	56.6	85.0	101.3
Growth (%)	(6.6)	(30.5)	50.2	19.2
Net DPS (Rs)	7.5	7.5	10.0	11.0

Profitability & Valuation

	2011	2012	2013E	2014E
EBITDA margin (%)	10.1	7.1	8.8	9.3
RoE (%)	18.3	11.3	15.1	15.7
RoCE (%)	17.7	10.9	14.7	15.9
EV / sales (x)	1.0	1.1	0.9	0.8
EV / EBITDA (x)	10.2	15.5	9.9	8.2
PE (x)	17.2	24.7	16.4	13.8
P / BV (x)	2.9	2.7	2.3	2.0
Net dividend yield (%)	0.5	0.5	0.7	0.8

Source: Company Data; PL Research

Exhibit 1: Q4FY12 Result Overview (Rs m)

Y/e March	Q4FY12	Q4FY11	YoY gr. (%)	Q3FY12	FY12	FY11	YoY gr. (%)
Net Revenues	117,270	100,922	16.2	78,824	355,871	366,184	(2.8)
Raw Materials	93,328	79,129	17.9	62,433	280,656	283,382	(1.0)
<i>% of Net Sales</i>	<i>79.6</i>	<i>78.4</i>		<i>79.2</i>	<i>78.9</i>	<i>77.4</i>	
Personnel	2,560	1,534	66.9	2,090	8,438	7,036	19.9
<i>% of Net Sales</i>	<i>2.2</i>	<i>1.5</i>		<i>2.7</i>	<i>2.4</i>	<i>1.9</i>	
Manufacturing & Other Expenses	12,797	10,662	20.0	9,739	41,647	38,730	7.5
<i>% of Net Sales</i>	<i>10.9</i>	<i>10.6</i>		<i>12.4</i>	<i>11.7</i>	<i>10.6</i>	
Total Expenditure	108,685	91,325	19.0	74,262	330,741	329,148	0.5
EBITDA	8,585	9,597	-10.5	4,562	25,130	37,037	(32.1)
<i>EBITDA Margin (%)</i>	<i>7.3</i>	<i>9.5</i>		<i>5.8</i>	<i>7.1</i>	<i>10.1</i>	
Depreciation	3,306	2,467	34.0	2,989	11,384	10,135	12.3
EBIT	5,279	7,131	(26.0)	1,573	13,746	26,902	(48.5)
Interest Expenses	208	64	227.4	174	552	250	120.8
Non-operating income	2,969	1,199	147.6	1,604	8,269	5,088	62.5
PBT	8,040	8,266	(2.7)	3,003	21,463	31,739	(32.4)
Extraordinary Expenses	—	—		390	—	652	
PBT after extraordinary items	8,040	8,266	(2.7)	2,613	21,463	31,088	(31.0)
Tax-Total	1,642	1,667	(1.5)	557	5,111	8,201	(37.7)
<i>Tax Rate (%) - Total</i>	<i>20.4</i>	<i>20.2</i>		<i>21.3</i>	<i>23.8</i>	<i>26.4</i>	
Reported PAT	6,398	6,599	(3.0)	2,056	16,352	22,887	(28.6)
Extraordinary Expenses	—	—		390	—	652	
Adj. PAT	6,398	6,599	(3.0)	2,446	16,352	23,538	(30.5)

Source: Company Data, PL Research

Exhibit 2: Q3FY12 Result Overview (Rs m)

Y/e March	Q4FY12	Q4FY11	YoY gr. (%)	Q3FY12	FY12	FY11	YoY gr. (%)
Car Sales Volume (nos)	360,334	345,026	4.4	239,528	1,133,695	1,271,005	(10.8)
Net Realisation/Vehicle	325,448	292,505	11.3	329,081	313,904	288,106	9.0
Material cost / vehicle	259,004	229,342	12.9	260,648	247,559	222,959	11.0
Contribution/vehicle	66,444	63,163	5.2	68,432	66,345	65,147	1.8
Other expenses / vehicle	35,515	30,901	14.9	40,660	36,736	30,472	20.6
EBITDA/vehicle	23,825	27,816	(14.3)	19,046	22,166	29,140	(23.9)
Net Profit/vehicle	17,757	19,125	(7.2)	10,213	14,424	18,519	(22.1)

Source: Company Data, PL Research

Key takeaways of the Conference Call

- **Hedging on behalf of vendors – A big positive:** With the hedging for vendors now in place, we believe MSIL has cushioned itself against the volatile currency fluctuations which impacted its profitability in FY12E. EBITDA margins are likely to be impacted by ~200bps YoY in FY12E, purely on account of the Yen-Rupee movement.
- **40% Yen denominated exposure hedged for FY13E:** MSIL has hedged both its direct + indirect Yen exposure to the tune of 40% of FY13E requirement. Our sense is that the Yen has been hedged upwards of ¥80/\$. As a result, from Q1FY12 onwards, this lag effect of vendors' import (Rs2bn for Q4FY12) would not be of recurring nature and thereby, margin improvement is likely. Both the above factors can easily add around ~120bps to the EBITDA margins in FY13E.
- **Discounts unlikely to come down in the near term:** Discounts have gone up from Rs12,500 to Rs13,400/vehicle on a sequential basis, despite product mix skewed towards diesel. Going forward, with petrol car sales likely to be subdued, the scope of discounts coming down is limited.
- **Diesel production up to 4lac/ year for FY13E:** Diesel production to increase from 250,000 in FY12 to 400,000 in FY13 (Suzuki Powertrain India: 300,000 and Fiat: 100,000).
- **Other income up** due to maturity of fixed maturity plans (FMPs). Other income higher by Rs2bn due to same.
- **New models demand strong:** The recently launched 'Ertiga' has got a booking of 22,000 units booked. 80% of the booking is for the diesel variant. *Swift* and *Dzire* waiting period is six months and five months, respectively, on diesel variants and four weeks on petrol variants.
- **Capex plans:** FY12 spend on cape was pegged at Rs27bn which would increase to Rs30bn in FY13E. In addition, the new diesel plant at Gurgaon with a capacity of 3lac units/year would entail a total capex of Rs17bn and would commence operations in FY13E.

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	366,184	355,871	436,303	491,112
Raw Material Expenses	283,382	280,656	341,683	382,976
Gross Profit	82,803	75,215	94,620	108,136
Employee Cost	7,036	8,438	9,670	10,661
Other Expenses	38,730	41,647	46,574	51,613
EBITDA	37,037	25,130	38,376	45,861
Depr. & Amortization	10,135	11,384	12,361	13,772
Net Interest	250	552	500	550
Other Income	4,436	7,509	7,900	8,300
Profit before Tax	31,087	21,463	33,415	39,840
Total Tax	8,201	5,111	8,855	10,558
Profit after Tax	22,886	16,352	24,560	29,282
Ex-Od items / Min. Int.	(652)		—	—
Adj. PAT	23,538	16,352	24,560	29,282
Avg. Shares O/S (m)	289.0	289.0	289.0	289.0
EPS (Rs.)	81.4	56.6	85.0	101.3

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	39,279	31,381	41,399	46,207
C/F from Investing	(5,292)	(39,857)	(28,402)	(40,959)
C/F from Financing	(9,885)	7,752	(13,451)	(3,440)
Inc. / Dec. in Cash	24,103	(724)	(455)	1,808
Opening Cash	982	25,085	24,362	23,907
Closing Cash	25,085	24,362	23,907	26,910
FCFF	23,047	6,643	7,638	18,781
FCFE	15,145	17,115	(3,146)	18,781

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	23.6	(2.8)	22.6	12.6
EBITDA (%)	(6.9)	(32.1)	52.7	19.5
PAT (%)	(6.6)	(30.5)	50.2	19.2
EPS (%)	(6.6)	(30.5)	50.2	19.2
Profitability				
EBITDA Margin (%)	10.1	7.1	8.8	9.3
PAT Margin (%)	6.4	4.6	5.6	6.0
RoCE (%)	17.7	10.9	14.7	15.9
RoE (%)	18.3	11.3	15.1	15.7
Balance Sheet				
Net Debt : Equity	(0.2)	(0.1)	(0.1)	(0.1)
Net Wrkng Cap. (days)	(19)	(26)	(33)	(34)
Valuation				
PER (x)	17.2	24.7	16.4	13.8
P / B (x)	2.9	2.7	2.3	2.0
EV / EBITDA (x)	10.2	15.5	9.9	8.2
EV / Sales (x)	1.0	1.1	0.9	0.8
Earnings Quality				
Eff. Tax Rate	26.4	24.7	26.5	26.5
Other Inc / PBT	16.0	38.5	23.6	20.8
Eff. Depr. Rate (%)	8.2	7.6	6.8	6.6
FCFE / PAT	64.3	104.7	(12.8)	64.1

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	138,675	151,874	173,645	199,186
Total Debt	312	10,784	—	—
Other Liabilities	3,999	5,671	3,023	3,023
Total Liabilities	142,987	168,329	176,669	202,209
Net Fixed Assets	63,919	77,446	96,960	110,065
Goodwill	—	—	—	—
Investments	62,223	78,580	71,452	83,489
Net Current Assets	16,844	12,303	8,256	8,656
<i>Cash & Equivalents</i>	<i>25,085</i>	<i>24,362</i>	<i>23,907</i>	<i>26,910</i>
<i>Other Current Assets</i>	<i>31,161</i>	<i>38,889</i>	<i>49,773</i>	<i>56,132</i>
<i>Current Liabilities</i>	<i>39,402</i>	<i>50,947</i>	<i>65,424</i>	<i>74,386</i>
Other Assets	—	—	—	—
Total Assets	142,986	168,329	176,669	202,209

Quarterly Financials (Rs m)

Y/e March	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Net Revenue	85,293	78,316	78,824	117,270
EBITDA	7,644	5,702	4,562	8,085
<i>% of revenue</i>	<i>9.0</i>	<i>7.3</i>	<i>5.8</i>	<i>6.9</i>
Depr. & Amortization	2,425	2,664	2,989	3,306
Net Interest	58	109	174	208
Other Income	1,800	1,178	1,604	2,969
Profit before Tax	7,462	3,346	2,613	8,040
Total Tax	1,970	942	557	1,642
Profit after Tax	5,492	2,405	2,056	6,398
Adj. PAT	5,492	2,405	2,056	6,398

Key Operating Metrics

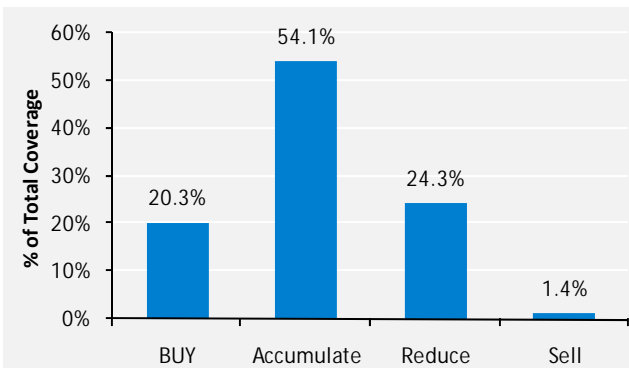
Y/e March	2011	2012	2013E	2014E
A2 Seg. Vol. (nos)	808,552	709,430	794,562	874,018
Total Domestic Vol. (nos)	1,132,739	1,006,316	1,191,463	1,306,186
Export Vol. (nos)	138,266	127,379	128,000	136,000
Total Vol. (nos)	1,271,005	1,133,695	1,319,463	1,442,186
Net Realization/Unit (Rs)	288,106	313,904	330,667	340,533
RM Cost/Unit (Rs)	222,959	247,559	258,956	265,552
Other Exp./Unit (Rs)	30,472	36,736	35,298	35,788
EBITDA/Unit (Rs)	29,140	22,166	29,085	31,800
Net Profit/Unit (Rs)	18,006	14,424	18,614	20,304
Other Comp./Unit (Rs)	198,879	218,767	227,517	230,930
Royalty (Rs m)	18,935	19,592	23,942	27,477
Royalty/Unit (Rs)	14,898	17,281	18,145	19,053
SG&A Exp. (Rs m)	11,029	13,064	12,931	13,853
Selling & Distr. Exp./Unit (Rs)	8,677	11,524	9,800	9,605

Source: Company Data, PL Research.



Prabhudas Lilladher Pvt. Ltd.
 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
 Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.