

October 30, 2012

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Rating	Accumulate
Price	Rs1,391
Target Price	Rs1,596
Implied Upside	14.7%
Sensex	18,431
Nifty	5,598

(Prices as on October 30, 2012)
Trading data

Market Cap. (Rs bn)	401.8
Shares o/s (m)	288.9
3M Avg. Daily value (Rs m)	1057.3

Major shareholders

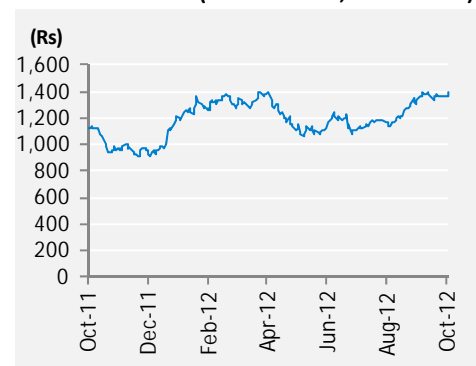
Promoters	54.21%
Foreign	19.35%
Domestic Inst.	17.38%
Public & Other	9.06%

Stock Performance

(%)	1M	6M	12M
Absolute	3.0	1.4	23.5
Relative	4.7	(5.0)	20.0

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	67.5	66.6	1.4
2014	105.2	95.0	10.7

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


Source: Bloomberg

Maruti Suzuki's (MSIL's) Q2FY13 operating performance was in line with our estimates. Despite the 8.7% YoY drop in volumes, top-line grew by 8.2% on account of 18.5% growth in realizations on account of higher sales of LUV 'Ertiga' and higher realization in export market. In our view, MSIL is the best play on recovery in the macroeconomic situation. Given the strong product portfolio of 'Swift', 'Dzire' and the success of 'Ertiga', we maintain our long-term positive view on the stock and expect a strong recovery in FY14E (volume growth of 20.0%). We maintain MSIL as our top-pick in Auto space with a TP of Rs1,596 based on 14.5x FY14E consolidated EPS (MSIL +SPIL) of Rs110.

■ **EBITDA in line; Adj. PAT below estimates on account of lower other income :** Top-line grew by 8.2% YoY to Rs83.0bn (PLe: Rs82.3bn) led by ~18.5% growth in pricing on account of better product mix, with 'Ertiga' accounting for ~22,000 units v/s NIL in Q2FY12 and higher realization in exports. Diesel volumes accounted for 30.4% of overall volumes as against 33.8% QoQ. Despite inferior product mix, average realisation/vehicle declined by only 1.0% on account of ~9.0% QoQ improvement in 'Ertiga' volumes and higher export realizations. Material cost increased by 100bps YoY on account of exchange impact on indirect imports and higher discounts. However, other expenses were lower by 150bps YoY mainly on reduction in ASP expenses as well as overhead costs. As a result, EBITDA margins were maintained at 6.1% YoY which is commendable, given the tough environment of rising costs and increasing discounts on petrol vehicles. As a result, EBITDA stood at Rs5.0bn (PLe: Rs5.1bn).

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Key financials (Y/e March)

	2011	2012	2013E	2014E
Revenues (Rs m)	366,184	355,871	441,116	550,316
Growth (%)	23.6	(2.8)	24.0	24.8
EBITDA (Rs m)	37,037	25,130	32,583	49,307
PAT (Rs m)	23,538	16,352	19,508	30,416
EPS (Rs)	81.4	56.6	67.5	105.2
Growth (%)	(6.6)	(30.5)	19.3	55.9
Net DPS (Rs)	7.5	7.5	10.0	11.0

Profitability & Valuation

	2011	2012	2013E	2014E
EBITDA margin (%)	10.1	7.1	7.4	9.0
RoE (%)	18.3	11.3	12.2	16.7
RoCE (%)	17.7	10.9	12.2	17.1
EV / sales (x)	1.0	1.1	0.9	0.7
EV / EBITDA (x)	10.2	15.5	11.6	7.5
PE (x)	17.1	24.6	20.6	13.2
P / BV (x)	2.9	2.6	2.4	2.1
Net dividend yield (%)	0.5	0.5	0.7	0.8

Source: Company Data; PL Research

- **PAT declined by 30.8% led by lower other income:** On account of lower other income, which declined by 33.9% YoY to Rs1.1bn (PLe: Rs1.5bn), PAT for the quarter declined 30.8% to Rs1.8bn (PLe: Rs2.3bn). We have excluded Rs430m of MTM forex gain from other income to arrive at our adj. PAT numbers
- **Concall highlights – Festive demand encouraging:** Manesar has ramped up to full production of 1,700 cars/day which is likely to increase to 2,000/day by end-November. Given the strong order book for ‘Swift’ and the ‘Dzire’ (1lac units), the timely ramp-up will help MSIL to cater to the festive season demand which has just began. The new 800cc ‘Alto’ has received a booking of ~30,000 units in the first month of its launch. Royalty expenses are lower by 60bps QoQ on account of revision of provision in Q1FY13 to the tune of Rs380m. Other income includes a MTM gain to the tune of Rs430m as against a MTM loss of Rs260m in Q2FY12. Effective tax rate is likely to be 20% for FY13E.
- **H2FY13E profit likely to grow by ~64%:** Led by 12.5% YoY growth in H2FY13E volumes (~33.6% YoY growth in Q3FY13E volumes), the profitability of MSIL is likely to improve by 64% YoY in H2FY13E. In our view, operating leverage, coupled with superior product mix, would lead to EBITDA margins of 7.5-8% in H2FY13E. As a result, H2FY13E profit would be Rs13.0bn, thereby, accounting for ~68% of full year profit in FY13E.
- **Reiterate our positive stance on MSIL and retain it as our top-pick in Autos:** We reiterate that MSIL is the best play on the recovery in the macroeconomic situation and lower interest rates. For FY14E, we see strong recovery for the petrol car demand as well as strong growth for the diesel vehicles (lower base of FY13E). We have assumed a 6.0% and 20.0% volume growth in FY13E and FY14E, respectively. We expect the margins to improve by ~190bps over the next two years, mainly on account of currency hedging, operating leverage and better product mix. We maintain MSIL as top-pick in Auto space with a TP of Rs1,596 based on 14.5x FY14E consolidated EPS (MSIL +SPIL) of Rs110.

Exhibit 1: Q2FY13 Result Overview (Rs m)

Y/e March	Q2FY13	Q2FY12	YoY gr. (%)	Q1FY13	H1FY12	H1FY12	YoY gr. (%)
Net Revenues	83,054	76,744	8.2	107,782	190,836	161,285	18.3
Raw Materials	66,110	60,209	9.8	83,903	150,012	126,186	18.9
<i>% of Net Sales</i>	<i>79.6</i>	<i>78.5</i>	<i>1.5</i>	<i>77.8</i>	<i>78.6</i>	<i>78.2</i>	<i>0.5</i>
Personnel	2,352	1,995	17.9	2,383	4,735	3,788	25.0
<i>% of Net Sales</i>	<i>2.8</i>	<i>2.6</i>		<i>2.2</i>	<i>2.5</i>	<i>2.3</i>	
Manufacturing & Other Expenses	9,507	9,874	(3.7)	13,633	23,140	18,541	24.8
<i>% of Net Sales</i>	<i>11.4</i>	<i>12.9</i>		<i>12.6</i>	<i>12.1</i>	<i>11.5</i>	
Total Expenditure	77,969	72,078	8.2	99,919	177,887	148,515	19.8
EBITDA	5,086	4,666	9.0	7,863	12,948	12,770	1.4
<i>EBITDA Margin (%)</i>	<i>6.1</i>	<i>6.1</i>		<i>7.3</i>	<i>6.8</i>	<i>7.9</i>	
Depreciation	3,470	2,664	30.3	3,399	6,869	5,088	35.0
EBIT	1,615	2,003	(19.3)	4,464	6,079	7,682	(20.9)
Interest Expenses	380	109	248.0	332	712	167	326.8
Non-operating income	1,133	1,713	(33.9)	1,123	2,256	3,554	(36.5)
PBT	2,368	3,606	(34.3)	5,256	7,624	11,069	(31.1)
Extraordinary Expenses	(430)	260			(430)	260	
PBT after extraordinary items	2,798	3,346	(16.4)	5,256	8,054	10,809	(25.5)
Tax-Total	524	942	(44.4)	1,018	1,542	2,912	(47.1)
<i>Tax Rate (%) - Total</i>	<i>18.7</i>	<i>28.1</i>		<i>19.4</i>	<i>19.1</i>	<i>26.9</i>	
Reported PAT	2,275	2,404	(5.4)	4,238	6,512	7,897	(17.5)
Extraordinary Expenses	(430)	260			(430)	260	
Adj. PAT	1,845	2,664	(30.8)	4,238	6,082	8,157	(25.4)

Source: Company Data, PL Research

Exhibit 2: Q3FY12 Result Overview (Rs m)

Y/e March	Q2FY13	Q2FY12	YoY gr. (%)	Q1FY13	H1FY12	H1FY12	YoY gr. (%)
Car Sales Volume (nos)	230,376	252,307	(8.7)	295,896	526,272	533,833	(1.4)
Net Realisation/Vehicle	360,516	304,169	18.5	364,255	362,618	302,126	20.0
Material cost / vehicle	286,963	238,633	20.3	283,555	285,047	236,377	20.6
Contribution/vehicle	73,553	65,536	12.2	80,700	77,571	65,748	18.0
Other expenses / vehicle	41,268	39,136	5.4	46,075	43,970	34,731	26.6
EBITDA/vehicle	22,075	18,495	19.4	26,573	24,604	23,922	2.9
Net Profit/vehicle	8,007	10,561	(24.2)	14,321	11,557	15,280	(24.4)

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	366,184	355,871	441,116	550,316
Raw Material Expenses	283,382	280,656	346,144	427,732
Gross Profit	82,803	75,215	94,972	122,584
Employee Cost	7,036	8,438	10,347	12,356
Other Expenses	38,730	41,647	52,042	60,921
EBITDA	37,037	25,130	32,583	49,307
Depr. & Amortization	10,135	11,384	12,998	14,606
Net Interest	250	552	1,400	1,280
Other Income	4,436	7,509	6,200	6,600
Profit before Tax	31,087	20,703	24,386	40,021
Total Tax	8,201	5,111	4,877	9,605
Profit after Tax	22,886	15,592	19,508	30,416
Ex-Od items / Min. Int.	(652)	(760)	—	—
Adj. PAT	23,538	16,352	19,508	30,416
Avg. Shares O/S (m)	289.0	289.0	289.0	289.0
EPS (Rs.)	81.4	56.6	67.5	105.2

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	39,279	31,381	38,597	54,804
C/F from Investing	(5,292)	(39,857)	(24,436)	(45,846)
C/F from Financing	(9,885)	7,752	(14,351)	(4,170)
Inc. / Dec. in Cash	24,103	(724)	(191)	4,788
Opening Cash	982	25,085	24,362	24,171
Closing Cash	25,085	24,362	24,171	30,154
FCFF	23,047	6,643	3,506	26,648
FCFE	15,145	17,115	(7,278)	26,648

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	23.6	(2.8)	24.0	24.8
EBITDA (%)	(6.9)	(32.1)	29.7	51.3
PAT (%)	(6.6)	(30.5)	19.3	55.9
EPS (%)	(6.6)	(30.5)	19.3	55.9
Profitability				
EBITDA Margin (%)	10.1	7.1	7.4	9.0
PAT Margin (%)	6.4	4.6	4.4	5.5
RoCE (%)	17.7	10.9	12.2	17.1
RoE (%)	18.3	11.3	12.2	16.7
Balance Sheet				
Net Debt : Equity	(0.2)	(0.1)	(0.1)	(0.2)
Net Wrkng Cap. (days)	(19)	(26)	(33)	(37)
Valuation				
PER (x)	17.1	24.6	20.6	13.2
P / B (x)	2.9	2.6	2.4	2.1
EV / EBITDA (x)	10.2	15.5	11.6	7.5
EV / Sales (x)	1.0	1.1	0.9	0.7
Earnings Quality				
Eff. Tax Rate	26.4	24.7	20.0	24.0
Other Inc / PBT	16.0	38.5	25.4	16.5
Eff. Depr. Rate (%)	8.2	7.6	7.2	7.0
FCFE / PAT	64.3	104.7	(37.3)	87.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	138,675	151,874	169,024	195,698
Total Debt	312	10,784	—	—
Other Liabilities	3,999	5,671	3,023	3,023
Total Liabilities	142,987	168,329	172,047	198,721
Net Fixed Assets	63,919	77,446	96,324	108,594
Goodwill	—	—	—	—
Investments	62,223	78,580	67,486	84,409
Net Current Assets	16,844	12,303	8,237	5,718
<i>Cash & Equivalents</i>	<i>25,085</i>	<i>24,362</i>	<i>24,171</i>	<i>30,154</i>
<i>Other Current Assets</i>	<i>31,161</i>	<i>38,889</i>	<i>50,715</i>	<i>64,624</i>
<i>Current Liabilities</i>	<i>39,402</i>	<i>50,947</i>	<i>66,649</i>	<i>89,060</i>
Other Assets	—	—	—	—
Total Assets	142,986	168,329	172,047	198,721

Quarterly Financials (Rs m)

Y/e March	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Net Revenue	78,824	117,270	107,782	83,054
EBITDA	4,562	8,585	7,863	5,086
<i>% of revenue</i>	<i>5.8</i>	<i>7.3</i>	<i>7.3</i>	<i>6.1</i>
Depr. & Amortization	2,989	3,306	3,399	3,470
Net Interest	174	208	332	380
Other Income	1,604	2,969	1,123	1,133
Profit before Tax	2,613	8,040	5,256	2,368
Total Tax	557	1,642	1,018	524
Profit after Tax	2,056	6,398	4,238	1,845
Adj. PAT	2,446	6,398	4,238	1,845

Key Operating Metrics

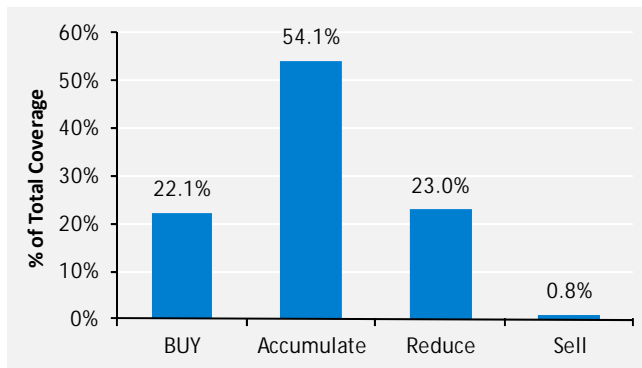
Y/e March	2011	2012	2013E	2014E
A2 Seg. Vol. (nos)	808,552	709,430	691,147	843,199
Total Domestic Vol. (nos)	1,132,739	1,006,316	1,081,425	1,298,609
Export Vol. (nos)	138,266	127,379	120,000	135,000
Total Vol. (nos)	1,271,005	1,133,695	1,201,425	1,433,609
Net Realization/Unit (Rs)	288,106	313,904	367,161	383,868
RM Cost/Unit (Rs)	222,959	247,559	288,111	298,360
Other Exp./Unit (Rs)	30,472	36,736	43,317	42,495
EBITDA/Unit (Rs)	29,140	22,166	27,120	34,394
Net Profit/Unit (Rs)	18,006	14,424	16,596	21,216
Other Comp./Unit (Rs)	198,879	218,767	227,517	230,930

Source: Company Data, PL Research.



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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

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