Indiabulls

MARUTI SUZUKI INDIA LTD
RESEARCH

EQUITY RESEARCH November 17, 2008

RESULTS REVIEW

Share Data

Market Cap	Rs. 158.8 bn
Price	Rs. 549.80
BSE Sensex	9,291.01
Reuters	MRTI.BO
Bloomberg	MSIL IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 1,099 / 474.9
Shares Outstanding	288.9 mn

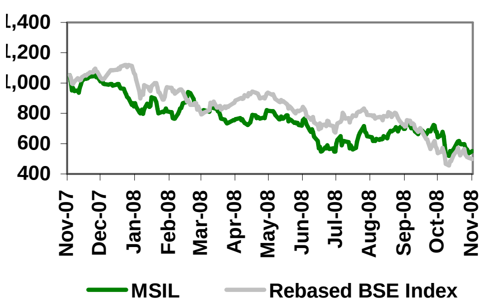
Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	50.6	38.3
+/- (%)	(21.6)%	(24.2)%
PER (x)	10.9x	14.3x
EV/ Sales (x)	0.8x	0.8x
EV/ EBITDA (x)	7.6x	7.2x

Shareholding Pattern (%)

Promoter	54
FIIs	16
Institutions	24
Public & Others	7

Relative Performance



Maruti Suzuki India Limited — Hold

Volumes to remain subdued

We have downgraded our estimates for Maruti Suzuki India Limited (MSIL) and subsequently revised our rating on the Company from Buy to Hold. We have lowered our estimates to take into account the greater-than-expected fall in volumes resulting from the slowdown in the domestic economy and the cautious lending policies being adopted by the banks due to the global financial turmoil. This is clearly evident from the 8% yoy decline in Company's domestic sales volume in October, despite it being the festive season.

We believe that MSIL's A1 & A2 segments will be badly affected by the prevailing adverse market conditions and the launch of Tata Nano. However, the upcoming new product launches, such as 'A-Star' in late November and 'Splash' in April 2009, should restrict the fall in volumes. Further, with the expected implementation of the Sixth Pay Commission's recommendations and interest rates likely to come down due to the cut in the CRR and repo rates, demand is expected to improve. Overall, we estimate MSIL's sales volume to decline by 2-3% yoy in FY09 and FY10.

We expect the EBITDA margin to improve in FY10. This is because prices of commodities such as steel and aluminium have started to decline, and this should provide an impetus to the margin.

At the current market price of Rs. 549.8, MSIL's stock is trading at a forward P/E of 10.9x and 14.3x for its FY09E and FY10E earnings, respectively. We have valued the Company by using the DCF method. Using a WACC calculated at 14% and a terminal growth rate of 5%, we have arrived at a target price of Rs. 630. Hence, we downgrade our rating on MSIL's stock to Hold.

Key Figures (Standalone)

Quarterly Data	Q2'08	Q1'09	Q2'09	YoY%	QoQ%	H1'08	H1'09	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	45,297	47,310	48,063	6.1%	1.6%	84,434	95,373	13.0%
Adj. EBITDA	7,077	4,815	5,157	(27.1)%	7.1%	13,485	10,860	(19.5)%
Adj. Net Profit	4,665	4,797	2,961	(36.5)%	(38.3)%	9,661	7,620	(21.1)%
Margins(%)								
EBITDA	15.1%	10.1%	10.3%			15.5%	11.1%	
NPM	10.0%	10.1%	5.9%			11.1%	7.8%	
Per Share Data (Rs.)								
Adj. EPS	16.2	16.6	10.2	(36.6)%	(38.3)%	33.4	26.4	(21.1)%

Result Highlights (Standalone)

Average realisation increased 6.3% yoy to Rs. 236,190 per car

Despite a 1% yoy decline in the sales volume, the Company's net sales increased 6.1% yoy to Rs. 48.1 bn on account of a higher average realisation and a lower excise duty. Average realisations increased as the share of sales from the A3 and MUV segments improved during the quarter. The domestic sales volume declined 2.5% yoy to 171.7k units due to the slowdown in the domestic economy and the high interest rates. The fall in domestic volume, however, was partially offset by a 17% increase in the export volume.

Segmental sales volume	Q2'08	Q2'09	YoY%
A1- (Maruti 800)	16,677	12,137	(27.2)%
A2- (Alto, Wagon-R, Zen, Swift)	122,689	118,083	(3.8)%
A3- (Dzire, SX4, Baleno)	14,118	18,849	33.5%
C - (Omni, Versa)	21,453	20,209	(5.8)%
MUV- (Grand Vitara, Gypsy)	1,223	2,428	98.5%
Total Domestic Sales (A)	**176,160**	**171,706**	**(2.5)%**
Exports (B)	15,171	17,745	**17.0%**
Total Sales Volume (A+B)	**191,331**	**189,451**	**(1.0)%**

Higher commodity prices, especially steel, pressurised margins

EBITDA stood at Rs. 5.2 bn, down by a sharp 27.1% yoy. This was due to a 28.1% yoy increase in the Company's employee costs on the back of 20.4% rise in the number of employees. Cost of raw materials consumed rose 9.7% yoy due to higher prices of raw materials such as steel and crude oil. The depreciation of the rupee vis-à-vis the yen added to the pressure by raising the rupee cost of the imported raw materials.

As per the new policy, assets are written off in a shorter period of time, leading to an increased depreciation charge

Adj. net profit fell sharply, down 36.5% yoy to Rs. 3 bn, and adj. net profit margin went down 404 bps yoy to 5.9%. The steep decline in net profit was due to a higher depreciation charge resulting from a change in the Company's depreciation policy. The fall in net profit was restricted, however, by a lower effective tax rate, down 146 bps yoy to 30.3%.

Outlook

The slowdown in the domestic economy, the prevailing high interest rates, and low credit availability led to a decline in the domestic auto sales during Q2'09. As a result, despite being the festive season, MSIL witnessed a decline of 8% yoy in its domestic sales volume in the month of October.

We do not expect this trend to turn around in the coming months, as due to the adverse conditions currently prevailing in the market, we believe that consumers will delay their purchase decisions till the economic scenario starts to improve. Moreover, banks have become extremely cautious in their lending, which is likely to affect the auto demand. However, with two new launches in the pipeline, we believe MSIL will be able to restrict the fall in its sales volume. The Company plans to launch 'A-Star' in late November and 'Splash' in April 2009. A-Star is expected compete well against the widely popular Hyundai i10 and boost MSIL's sales volume. Further, the expected implementation of the Sixth Pay Commission's recommendations should improve demand in the coming quarters.

Moreover, with the cut in CRR and Repo rates, we expect auto loan interest rates to come down in the near future, which should provide support to the auto industry. Thus, we expect the sales volume to decline by a moderate 2-3% yoy in FY09E and FY10E.

On the margins front, we believe that MSIL's raw material and fuel costs will come down with the sharp fall in prices of commodities such as metals and crude. However, the benefit of lower commodity prices will only start to show in the Company's results from Q1'10 due to the time lag effect.

The Company is also in the process of increasing its production capacity at the Manesar plant from 170,000 units per year to 300,000 units per year, which is expected to be complete by 2010. As a result, we believe it will be in a position to increase its production volume significantly once the demand for passenger vehicles starts to improve.

However, any delay in the launch of new models can pose a risk to our rating.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY08-10E)
Net Sales	120,876	147,217	180,754	186,881	183,679	0.8%
Adj. EBITDA	15,685	19,312	23,006	19,915	20,952	(4.6)%
Adj. Net Profit	12,191	16,007	18,628	14,610	11,074	(22.9)%
Margins(%)						
EBITDA	12.9%	13.1%	12.7%	10.4%	11.0%	
NPM	10.0%	10.8%	10.3%	7.6%	5.8%	
Per Share Data (Rs.)						
Adj. EPS	42.2	55.4	64.5	50.6	38.3	(22.9)%
PER (x)	20.7x	14.8x	8.5x	10.9x	14.3x	

Valuation

We have valued MSIL by using the DCF methodology. Using a WACC calculated at 14% and a terminal growth rate of 5%, we have arrived at a target price of Rs. 630. At the current market price of Rs. 549.8, the stock is trading at a P/E of 10.9x and 14.3x for its FY09E and FY10E earnings, respectively. Hence, we downgrade our rating on the Company's stock from Buy to Hold.

As DCF valuation is sensitive to the changes in WACC and terminal growth rate, we have done a sensitivity analysis for the same.

Sensitivity Analysis

Terminal growth	WACC				
	13.0%	13.5%	**14.0%**	14.5%	15.0%
4.00%	675	631	591	554	**521**
4.50%	700	652	609	571	536
5.00%	728	676	**630**	589	551
5.50%	760	703	653	609	569
6.00%	797	734	680	631	588

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