Values that bind
INSTITUTIONAL RESEARCH

Company Initiation

INDIA

AUTOMOBILES

13 September 2012

HOLD

TP: INR 1,350.00

▲ 10.6%

Maruti Suzuki

MSIL IN

Await a better entry point

We initiate coverage on MSIL with a HOLD rating and TP of Rs 1,350 (13.5x one-year forward earnings). We believe FY13 could be a tough year for the company due to the weak demand environment coupled with production losses following an extended shutdown at its Manesar plant. Further, with 25-28% of sales exposed to the Yen, concerns over currency volatility remain. While FY14 could see a demand recovery off a low base, we are cautious on the stock near term and await a better entry point.

- **FY13 a tough year:** In recent months MSIL has been hit by labour unrest at its Manesar plant coupled with the economic slowdown, both of which dented volumes (-4% in FY13 YTD). We have built in production losses from the Manesar plant shutdown and accordingly expect 6% volume growth in FY13. But with a favourable base and new launches (Ertiga, new Alto), we expect volumes to grow 16% in FY14.
- **Diesel capacity, SPIL merger to boost product mix:** With diesel capacity expansion, we believe the attendant shift in product mix will lead to higher volumes and margins. MSIL has already seen the share of diesel models increase to 38% of sales in Q1FY13 from 20% in Q1FY12. The SPIL merger is also likely to be earnings accretive as it offers opportunities for common sourcing of raw materials and increased localisation.
- **Volatile currency hurts margins:** With 25-28% of sales exposed to the Yen, currency fluctuation has a material impact on profitability. A 1% move in the Yen impacts MSIL's earnings by 3-4%. Currency volatility thus remains a key risk to margins.
- **Initiate with HOLD:** We expect a revenue/earnings CAGR of 20%/35% over FY12-FY14 and value the stock on 13.5x one-year forward EPS (standalone FY14 EPS of Rs 92 + SPIL EPS of Rs 6.9). This translates to a TP of Rs 1,350 (upside of 11%). We remain cautious on the stock given the cyclical slowdown and await a better entry point. Key risks are adverse movement in currency and delay in demand recovery.

Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (INR mln)	3,69,638	3,55,871	4,10,998	5,16,786	6,49,232
EBITDA (INR mln)	36,015	25,125	29,825	43,546	55,437
Adjusted net profit (INR mln)	22,562	14,643	17,724	27,885	35,741
Adjusted EPS (INR)	78.1	50.7	58.7	92.3	118.3
Adjusted EPS growth (%)	(8.6)	(35.1)	15.8	57.3	28.2
DPS (INR)	7.5	7.5	7.5	7.5	7.5
ROIC (%)	31.9	14.4	13.9	18.8	21.2
Adjusted ROAE (%)	17.6	10.1	11.1	15.5	17.1
Adjusted P/E (x)	16.2	26.6	20.8	13.2	10.3
EV/EBITDA (x)	8.1	12.6	10.3	6.9	5.1
P/BV (x)	2.6	2.6	2.2	1.9	1.6

Source: Company, Bloomberg, RCML Research

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PRICE CLOSE (12-09-2012)
INR 1,220.20

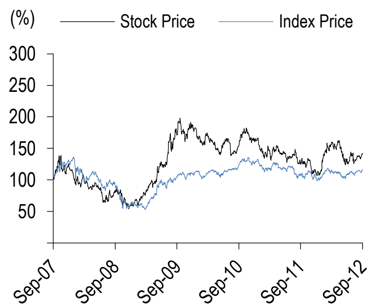
MARKET CAP
INR 3,52,528 mln
USD 6,384 mln

SHARES O/S
288.9 mln

FREE FLOAT
46.0%

3M AVG DAILY VOLUME./VALUE
1.1 mln/ USD 22.5 mln

52 WK HIGH	52 WK LOW
INR 1,397.45	INR 916.15



HOLD

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Fig 1 - Financial snapshot

	MCap*	Sales*			Sales Growth (%)			EBITDA*			PAT*			FDEPS			FDEPS Growth (%)		
		FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Domestic Peers																			
Maruti Suzuki India	3,52,528	3,55,871	4,10,998	5,16,786	(3.7)	15.5	25.7	25,125	29,825	43,546	14,643	17,724	27,885	50.7	58.7	92.3	(35.1)	15.8	57.3
Tata Motors	7,29,863	16,56,545	19,22,554	21,28,551	35.6	16.1	10.7	2,23,067	2,54,645	2,85,389	1,35,165	1,24,855	1,37,149	45.6	38.3	42.4	37.1	(15.9)	10.6
M&M	4,70,586	3,18,535	3,69,305	4,20,214	35.8	15.9	13.8	37,925	43,110	49,563	28,789	29,946	34,272	48.9	48.9	55.7	5.8	(0.0)	13.9
Global Peers																			
Hyundai Motor	46,151	70,291	74,893	79,855	21.3	6.5	6.6	9,330	10,495	11,326	7,323	8,119	8,771	25.5	31.2	34.1	46.9	22.5	9.2
Volkswagen Ag	79,501	2,21,862	2,38,687	2,56,341	31.8	7.6	7.4	29,749	28,155	32,685	12,330	18,201	15,172	26.5	36.5	32.3	31.6	37.8	(11.5)
Fiat Spa	7,326	82,930	1,03,766	1,09,285	74.2	25.1	5.3	8,006	9,913	11,152	739	910	1,537	0.6	0.7	1.1	7.3	19.8	63.7
General Motors C	35,986	1,50,276	1,51,055	1,59,469	10.8	0.5	5.6	14,286	12,272	13,959	7,600	5,615	6,940	5.3	3.1	3.9	74.3	(40.5)	25.7
Ford Motor Co	38,559	1,36,264	1,26,864	1,34,039	5.7	(6.9)	5.7	13,629	10,053	11,608	6,112	5,060	5,768	1.5	1.3	1.5	(20.9)	(16.7)	18.4
Honda Motor Co	59,476	1,00,732	1,28,910	1,35,651	(3.7)	28.0	5.2	9,659	12,786	14,531	2,680	6,542	7,558	1.5	3.6	4.2	(57.0)	143.8	15.7
Suzuki Motor	10,179	31,839	33,043	35,402	4.3	3.8	7.1	2,819	3,045	3,416	683	951	1,061	1.2	1.7	1.9	29.5	37.4	11.6
Toyota Motor	1,39,530	2,35,525	2,78,003	2,90,575	6.0	18.0	4.5	18,041	24,862	28,712	3,594	11,278	13,484	1.1	3.6	4.3	(24.8)	212.3	20.4

Source: Company, RCML Research, Bloomberg | *data in Rs mn for domestic peers and USD mn for global peers, All estimates except for Maruti Suzuki are consensus estimates

Fig 2 - Key ratios & Valuations

	EBITDA Margin (%)			PAT Margin (%)			ROE (%)			P/E (x)			EV/EBITDA (x)			P/BV (x)		
	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Domestic Peers																		
Maruti Suzuki India	7.1	7.3	8.4	4.1	4.3	5.4	10.1	11.1	15.5	26.6	20.8	13.2	12.6	10.3	6.9	2.6	2.2	1.9
Tata Motors	13.5	13.2	13.4	8.2	6.5	6.4	52.1	31.9	27.3	5.4	5.8	5.3	4.5	4.0	3.5	2.4	1.8	1.4
M&M	11.9	11.7	11.8	9.0	8.1	8.2	20.1	19.3	18.5	16.3	15.7	13.7	17.2	15.1	13.2	2.7	2.3	2.0
Global Peers																		
Hyundai Motor	13.3	14.0	14.2	10.4	10.8	11.0	15.5	23.1	20.0	6.3	5.7	5.3	4.1	3.7	3.4	1.6	1.6	1.3
Volkswagen Ag	13.4	11.8	12.8	5.6	7.6	5.9	29.8	23.2	15.3	6.4	4.4	5.2	6.2	6.6	5.6	1.0	0.8	0.7
Fiat Spa	9.7	9.6	10.2	0.9	0.9	1.4	13.2	7.3	11.1	9.9	8.1	4.8	2.9	2.3	2.1	0.6	0.5	0.5
General Motors C	9.5	8.1	8.8	5.1	3.7	4.4	28.3	18.8	18.9	4.7	6.4	5.2	2.0	2.3	2.0	1.2	1.1	0.9
Ford Motor Co	10.0	7.9	8.7	4.5	4.0	4.3	NA	31.7	30.6	6.3	7.6	6.7	7.6	10.2	8.9	2.3	2.3	1.8
Honda Motor Co	9.6	9.9	10.7	2.7	5.1	5.6	4.8	11.1	11.7	22.2	9.1	7.9	10.0	7.6	6.7	1.1	1.0	0.9
Suzuki Motor	8.9	9.2	9.6	2.1	2.9	3.0	5.5	7.1	7.4	14.9	10.7	9.6	2.3	2.1	1.9	0.8	0.8	0.7
Toyota Motor	7.7	8.9	9.9	1.5	4.1	4.6	2.7	8.1	9.2	38.8	12.4	10.3	14.1	10.2	8.9	1.0	0.9	0.8

Source: Company, RCML Research, Bloomberg, All Prices as per 12th Sep, 2012

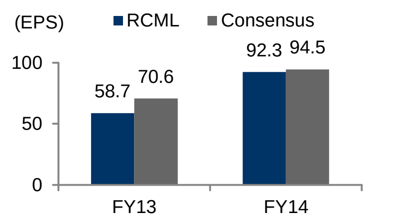
Wait for a better entry point

The MSIL stock has rebounded smartly in recent months and is currently trading at 12.2x FY14E EPS (including SPIL's contribution). In our view, valuations do not fully price in the weak demand environment and production losses arising from the Manesar plant shutdown. We believe FY13 could continue to be a struggle for the company in terms of demand growth. Further, average discounts have increased to Rs 11,500/vehicle in Q1FY13 from Rs 8,500/vehicle in Q1FY12 indicating weak demand. Our FY13/FY14 earnings are lower than consensus by 17%/3% and we value MSIL at 13.5x one-year forward earnings, leading to a target price of Rs 1,350 (11% upside).

We believe the stock could remain at current levels in the short term on account of the tepid demand environment and recommend that investors wait for a better entry point into the counter. Note that we do expect a demand recovery in FY14 along with upsides from lifting of the Manesar plant lockdown and the new Alto launch in Q3.

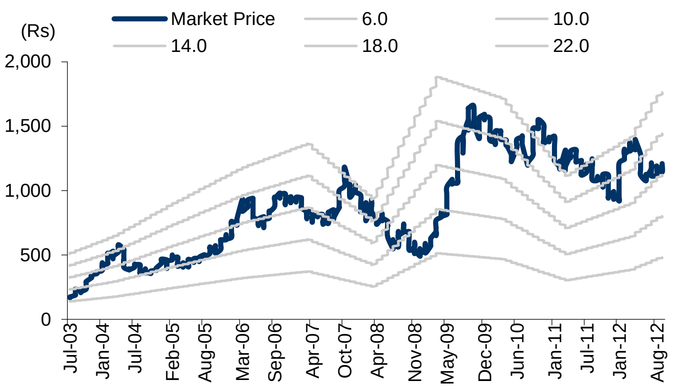
Weak macro and production losses to weigh on stock near term; initiate with HOLD, TP Rs 1,350

Earnings estimate comparison



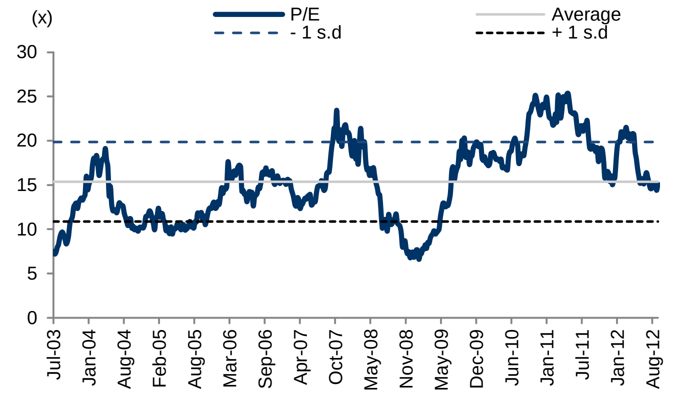
Source: Bloomberg, RCML Research

Fig 3 - MSIL: 1-year forward P/E band



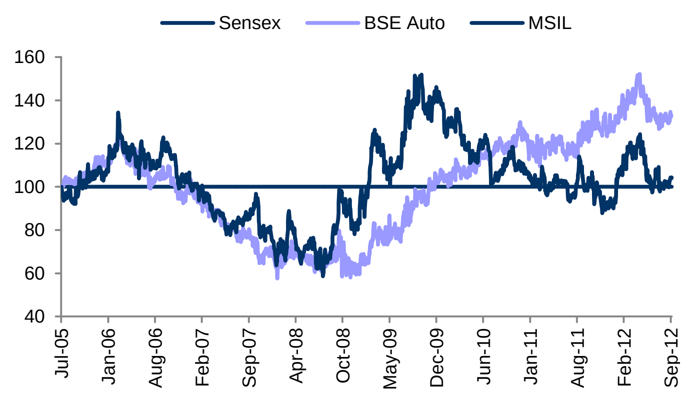
Source: RCML Research

Fig 4 - MSIL: 1-year forward P/E deviation



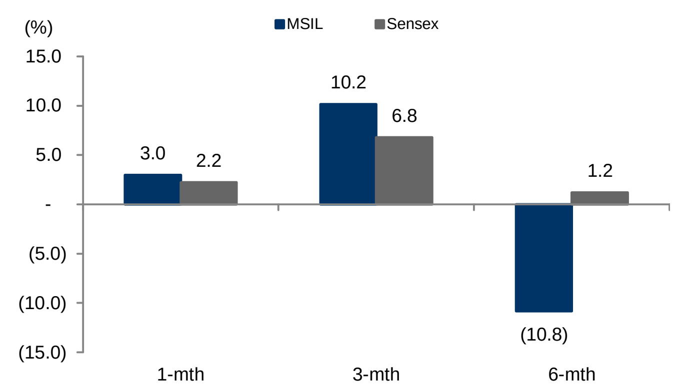
Source: RCML Research

Fig 5 - MSIL's historical stock performance



Source: RCML Research

Fig 6 - MSIL has outperformed the Sensex in the past 3 months



Source: RCML Research

FY13 hit by labour unrest, bleak economy

A weak macro environment marked by rising inflation and spiraling fuel costs has dampened MSIL's volume growth for the first quarter of FY13 (+5.1% YoY). Further, labour unrest at the Manesar facility and the resultant lockdown has led to production losses. The company resumed operations at the plant on 21 August. We have built in a volume growth of 6%/16% for FY13/FY14 respectively.

We are modeling in 6%/16% volume growth in FY13/FY14

Fig 7 - MSIL volume estimates

(units)		FY11	FY12	FY13E	FY14E	FY15E
Domestic						
Cars	Mini	5,73,238	4,91,389	4,32,422	5,18,907	6,22,688
	% YoY		*-14*	*-12*	*20*	*20*
	Compact	2,61,799	2,35,754	2,82,905	3,25,341	3,74,142
	% YoY		*-10*	*20*	*15*	*15*
	Super-compact	1,07,955	1,10,132	1,59,691	1,83,645	2,11,192
	% YoY		*2*	*45*	*15*	*15*
	Mid-size	23,317	17,997	6,299	6,929	7,622
	% YoY		*-23*	*-65*	*10*	*10*
	Executive	138	458	137	151	166
	% YoY		*232*	*-70*	*10*	*10*
	Total	**9,66,447**	**8,55,730**	**8,81,455**	**10,34,972**	**12,15,810**
	% YoY		*-11*	*3*	*17*	*17*
UVs		5,666	6,525	65,000	74,750	82,225
	% YoY		*15*	*896*	*15*	*10*
Vans		1,60,626	1,44,061	1,22,452	1,34,697	1,48,167
	% YoY		*-10*	*-15*	*10*	*10*
Total (domestic)		11,32,739	10,06,316	10,68,907	12,44,419	14,46,201
	% YoY	*30*	*-11*	*6*	*16*	*16*
Exports		1,38,266	1,27,372	1,33,741	1,47,115	1,61,826
	% YoY	*-6*	*-8*	*5*	*10*	*10*
Total		12,71,005	11,33,688	12,02,647	13,91,534	16,08,027
	% YoY	*25*	*-11*	*6*	*16*	*16*

Source: Company, RCML Research

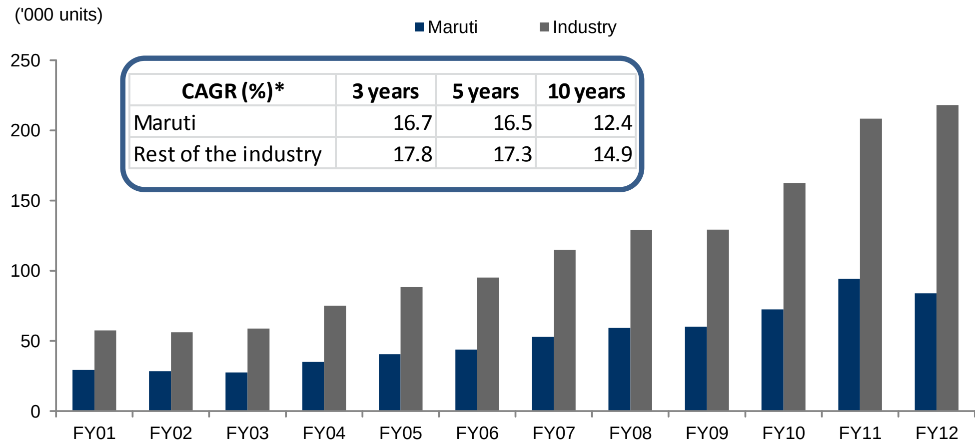
Maruti's market dominance to continue

MSIL has *consistently* led the passenger vehicle (PV) industry on the back of its robust and steadily expanding car portfolio. Its dominance in the small car segment is a testimony to the company's:

- ***Brand longevity***: The *Alto* launched a decade ago is still the highest selling brand in the industry.
- ***Superior reach***: With an ever expanding dealer network, MSIL has managed to create a superior geographical footprint; in FY12 its dealer sales network covered 1,100 outlets in 801 cities and total service points expanded to 2,958 workshops in 1,408 cities.
- ***B(r)andwidth***: The number of brands (especially successful ones) in MSIL's portfolio outnumber those of its competitors; consequently, the company has been able to offer consumers options at multiple price points and in some ways even created newer categories (*Swift* is credited with creating the premium hatchback category in India and *Ertiga* looks likely to follow suit in the UV space)

MSIL's established brand and service network key to market leadership

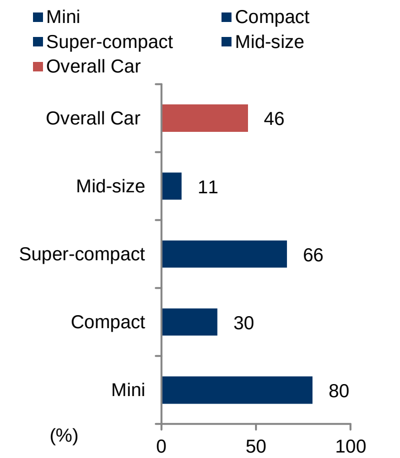
Fig 8 - MSIL accounted for 45% of PVs sold in India over the last decade



CAGR (%)*	3 years	5 years	10 years
Maruti	16.7	16.5	12.4
Rest of the industry	17.8	17.3	14.9

Source: CMIE, RCML Research | Volumes are annual average monthly run-rates | *CAGR from FY01-11 as FY12 was an aberration owing to the labour strike at Maruti's plant

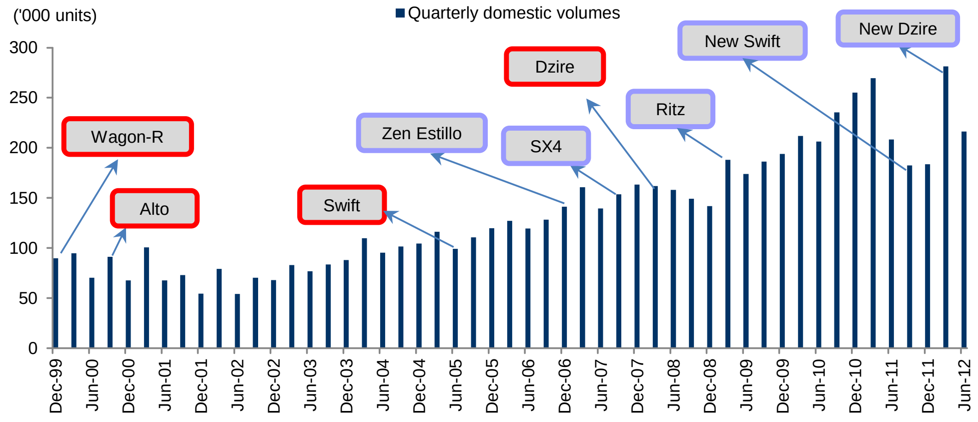
MSIL's share (FY11-12 combined) in key sub-segments of the car industry



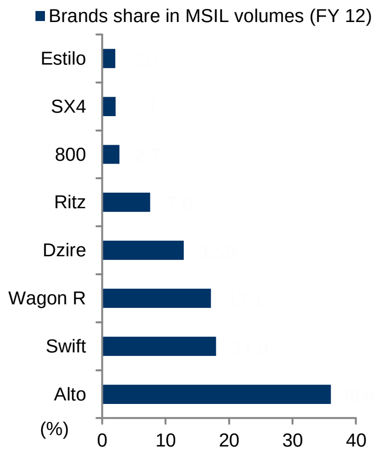
Old launches still running at full steam

Even as new players and new launches have thronged the market in the past, MSIL's brands continue to deliver on volumes: older brands (Alto/Wagon-R) helping it to sustain market share, and relatively newer brands (Swift/Dzire) helping it better the same. These four brands have helped the company capture demand at multiple price points.

Fig 9 - For MSIL, 4 out of 6 new launches in the small car segment have been highly successful



Source: CMIE, RCML Research



Even as MSIL continues to ride on the success of its past launches, we note that quite some time has elapsed since its last major launch, viz. the *Ritz* in 2009 (FY12 average monthly volume run-rate of ~5,400 units). Additionally, two of the four frontline brands are already over a decade old. While the *Swift* and the *Dzire* have recently undergone a major revamp, new launches/“refreshes” in the *mini* segment could provide a fillip to MSIL’s volumes – especially at a time when rival Hyundai’s *Eon* has been well received and before other existing or new players hit the segment with a new launch.

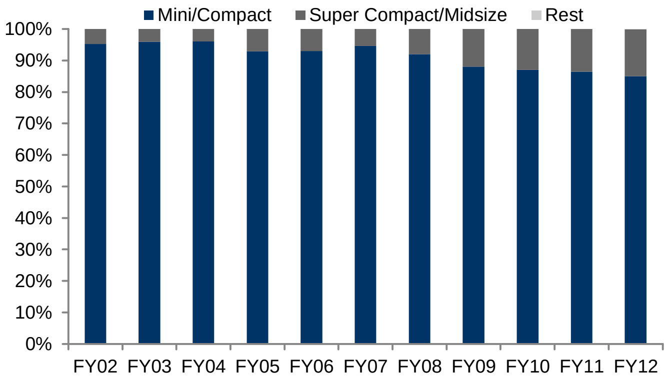
New launch/major refresh in the *mini* segment could provide fillip to MSIL’s volumes

Fig 10 - The Maruti Way- Taking the *INDIAN* buyer along...to the *next* level

Source: RCML Research

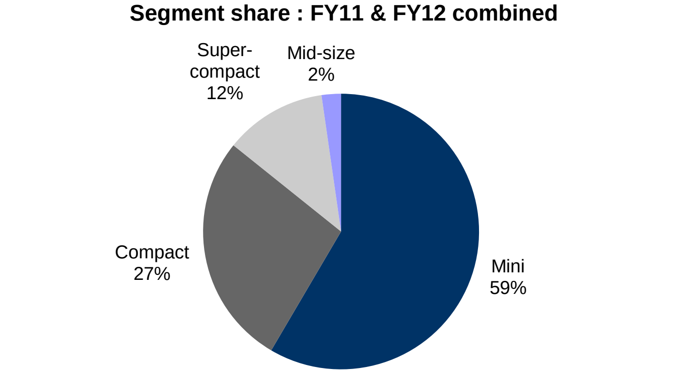
Owing to its own focus and partly in response to the maturity of the Indian car market, MSIL remains predominantly a small car player: the share of the mid-size *sedan* segment in its portfolio stands at a trifling 2% (vs. 10% for the industry). However, within the small car space, the company in tandem with the evolution of the market has made a conscious effort to graduate to the more premium end – in the process bringing down its dependency on the entry-level *mini* segment. (For further details on the Indian market, please refer to *The Indian Passenger Vehicle Market: Small car, Big share* on Pg 19).

Fig 11 - Maruti remains predominantly a small car player…



Source: CMIE, RCML Research

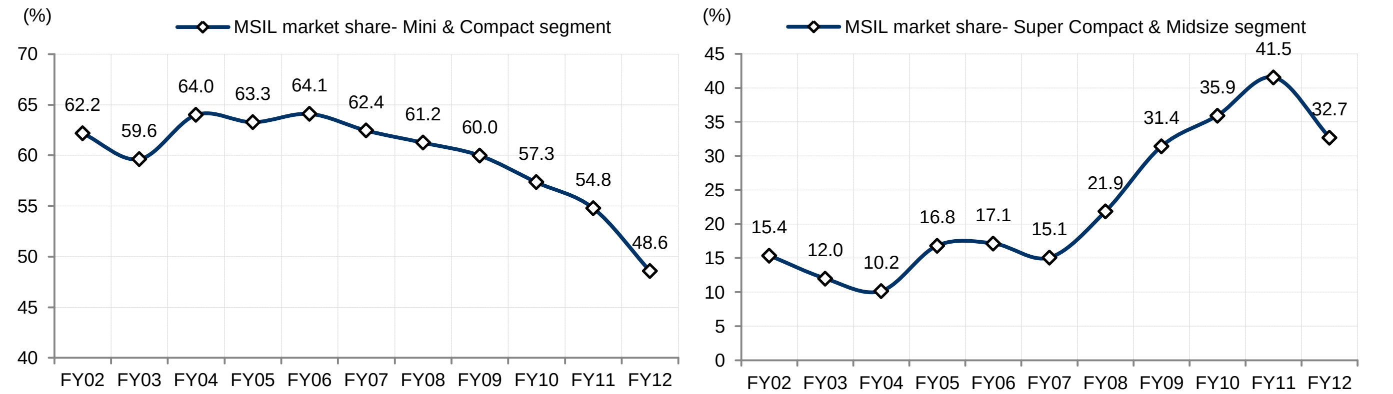
Fig 12 - …even as it looks to bring down its dependency on the entry-level mini segment



Source: CMIE, RCML Research

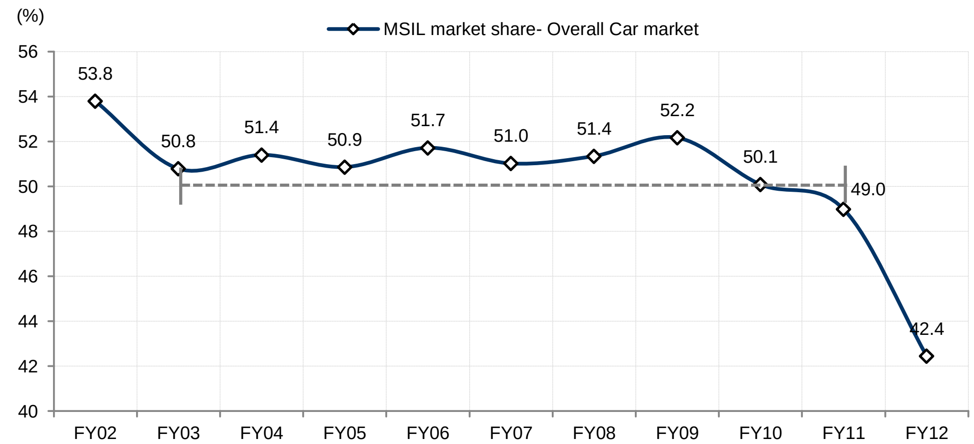
Past growth and future potential of India's car market have attracted significant competition in the entry compact car segment – many new players have signed in with new launches in recent years. The company on its part has responded well with a slew of successive launches in the more premium end, and continues to rule the market.

Fig 13 - MSIL has managed to boost its share in the *entry-level sedan* segment even as it contains losses in the *small car* segment (due to a flurry of rollouts by international players)…



Source: CMIE, RCML Research

Fig 14 - …consequently despite stiff competition MSIL has been able to maintain its market share in the overall *passenger car* industry



Source: CMIE, RCML Research

Labour strike and lack of diesel capacities hurt MSIL's volumes and market share in FY12

Ertiga, the 'Life Utility Vehicle' – infusing new *life* into MSIL's portfolio

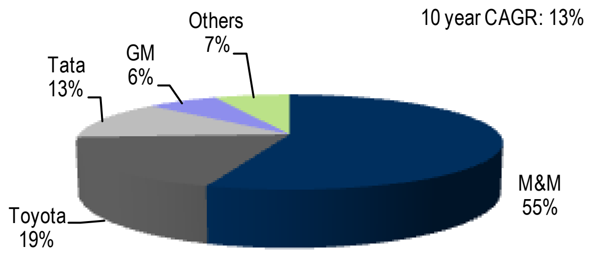
Given its past failure (*SX4)* in the increasingly competitive sedan segment (10 brands already in the fray), MSIL has resisted the temptation to launch yet another mid-size sedan. To compensate for the failure of *SX4*, it made efforts to do something different – leading to the launch of *Ertiga* in April 2012.

With the *Ertiga* launch, the company sought to make inroads in the ~370,000-unit p.a. domestic UV segment, dominated by M&M. Underlining its intent to create a new segment altogether within the UV space, MSIL priced the product attractively (lower than expected) and also positioned it differently – effectively widening its target market by including potential UV as well as sedan buyers.

In the very first month of its launch, Ertiga grossed bookings of over 32,000 units

As per the company, total bookings to date stand at 32,000 vehicles. MSIL plans to sell nearly 60,000 Ertiga in FY13.

Fig 15 - MSIL's absence in the (~370k p.a.) utility vehicle segment…



Source: CMIE, RCML Research

Fig 16 - ...meaningfully addressed by the launch of *Ertiga*

Source: CMIE, RCML Research

> *"There are 15mn people who own vehicles in the country. Of these ~10mn consumers are looking to upgrade their vehicles. So the opportunity is immense. The Ertiga will occupy a niche between premium hatchbacks and larger utility vehicles. It is a compact multi-purpose vehicle, what we term a 'life utility vehicle' (LUV) designed to meet the requirements of urban consumers who have an active lifestyle" – Maruti Suzuki*

Fig 17 - With the *Ertiga*, MSIL aims to create a new category

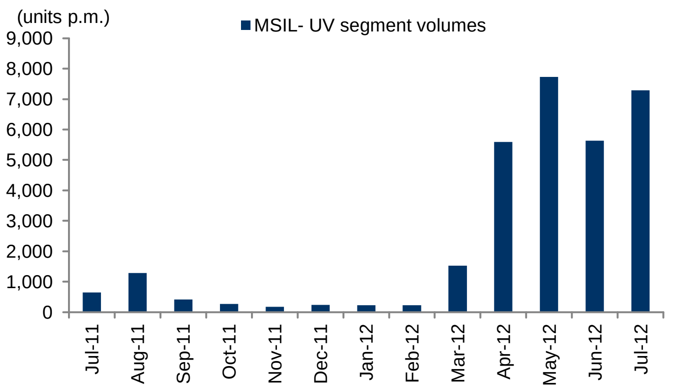
	Price range (ex-showroom, Rs mn)		
	0.6-1.0	**1.0-1.5**	**1.5-2.0**
MM	Scorpio/Xylo	XUV500	
Tata Motors	Sumo/Safari	Aria	
Force		Force One	
Maruti	**Eritga**		Grand Vitara
Toyota	Innova		Fortuner
Ford			Endeavour
GM	Tavera		Captiva
Skoda			Yeti

Source: RCML Research

While it's still early days in the life of *Ertiga*, the initial volume trajectory (average monthly run-rate of ~5,900 units in Q1FY13) and healthy order backlog presage meaningful contribution to MSIL's volumes and market share. The performance is especially heartening considering the broader gloom in the economy around the launch period as well as growth deceleration in many segments of the automobile market. In fact, the launch could well turn out to be another *Swift* in the making.

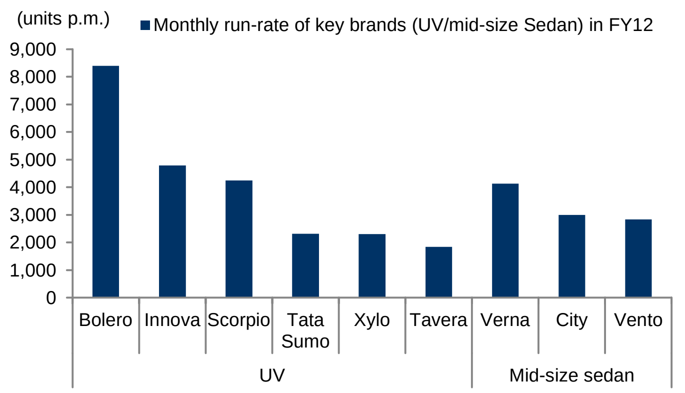
Ertiga* could well be another blockbuster like the *Swift

Fig 18 - Early volume build-up definitely looks promising…



Source: CMIE, RCML Research

Fig 19 - …as offtake catapults to levels ahead of most incumbents: in the UV as well as Sedan segments



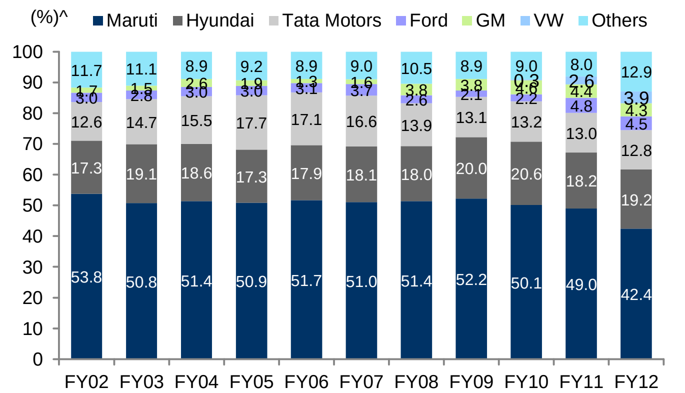
Source: CMIE, RCML Research

Competitive intensity has increased

From a predominantly 3-player market a decade ago, the Indian small car market today has swelled into a 10+ player arena. However, the top 3 still account for a dominant 75% of the market (vs. ~85% a decade ago). While some of the new entrants such as Ford, GM and VW have been able to capture some market share, none of them have more than 5% share to their name. This is largely a testament to the strong dealer network, after-sales service, brand strength & loyalty, and capacities that the incumbents have built over many years. An analysis of monthly volumes of GM, Ford and VW over FY11-12 suggests that volumes for these players have plateaued, implying the need for new launches/ refreshes to sustain or improve market share.

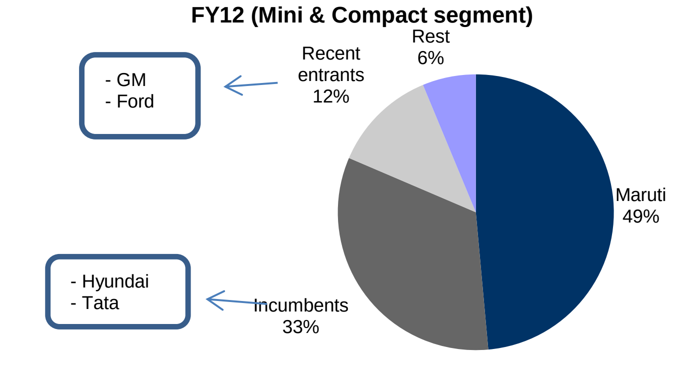
India's small car market today a competitive 10+ player arena

Fig 20 - While the 'India Opportunity' has seen a handful of foreign players come knocking at the door…



Source: CMIE, RCML Research | ^Market share- Passenger car market

Fig 21 - …incumbents have held their ground in the key mini-and-compact segment



Source: CMIE, RCML Research

Fig 22 - Monthly volumes (in the *mini-compact* segment) for some key new players seem to have plateaued… necessitating new launches/refreshes

Source: CMIE, RCML Research

Small car market crowded with ~27 brands

Going by the announcements made by various players, it is evident that the pace of launches has moderated on the back of new rollouts in FY11-FY12. Over the short-to-medium term, we expect to see more brand refreshes as opposed to outright new launches. Consequently, competition will continue to intensify (~27 brands) in the small car market, putting pressure on incumbents.

Fig 23 - Pace of competitive launches in the hatchback space has moderated

Category	Company	Brand	Timeline
UV	Ford	EcoSport	Jul-Sep '13
	M&M	Mini Xylo	Oct-Dec '12
MPV	Nissan	Evalia	Jul-Sep '12
	Ashok Leyland	Stile	Early 2013
	GM	Enjoy	Oct-Dec '12
Hatchback	**GM**	**Sail**	**Jul-Sep '12**
Sedans	M&M	Mini Verito	Jan-Mar '13
	GM	Sail	Jul-Sep '12
	Renault	Scala	Oct-Dec '12

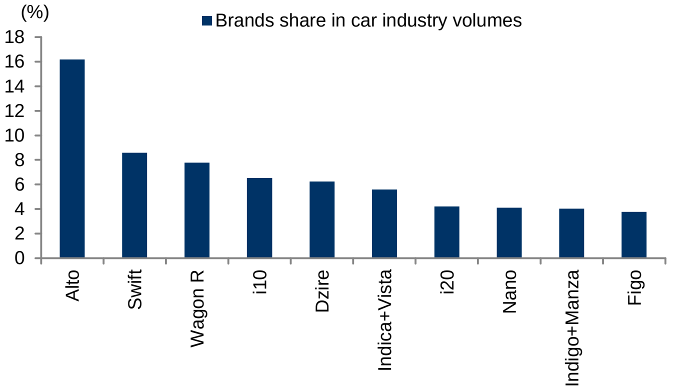
Source: RCML Research

Fig 24 - Owning a portfolio of brands straddling multiple price points is as important…

	Mini	Compact	Total
Maruti	4	3	**7**
Hyundai	2	3	**5**
Tata Motors		2	**2**
GM	1	2	**3**
VW		1	**1**
Honda		2	**2**
Ford		1	**1**

Source: RCML Research

Fig 25 - …as brands' share in industry volumes

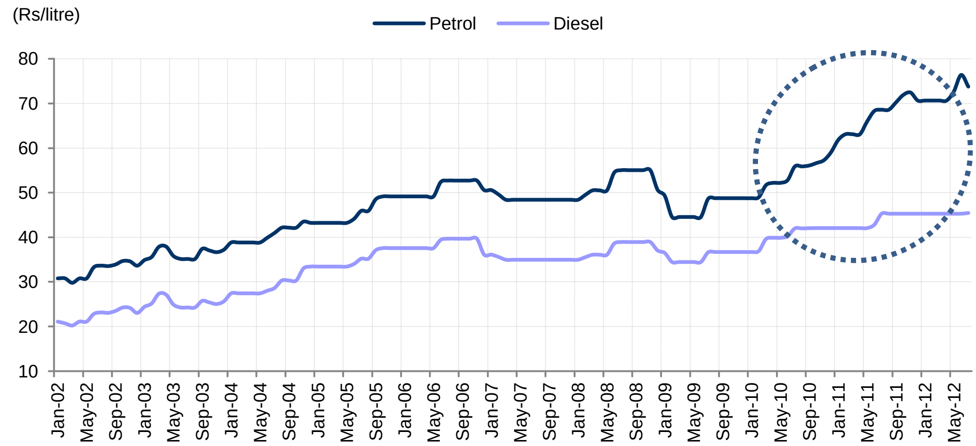


Source: RCML Research

Product portfolio strong with diesel capacity in place

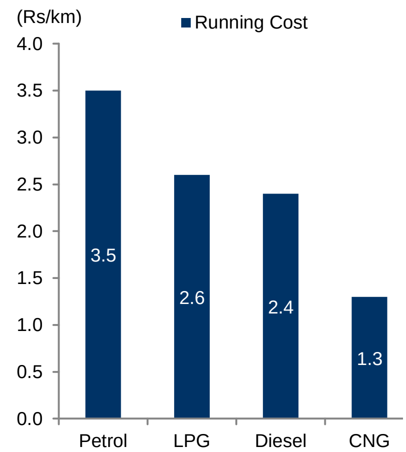
Of late, the Indian passenger car market has become a fuel-led market with potential buyers in the premium hatchback/sedan segments making a beeline for diesel models, while those in the mass hatchback space indicate a preference for CNG/LPG models as well (largely because some key models don't have a diesel option). Owing to regulatory distortions, while the price of diesel was always at a discount to petrol, the wedge has only widened in FY12: diesel variants consequently remain in high demand.

Fig 26 - While the diesel price was always at a discount to petrol, the wedge has only widened



Source: CMIE, RCML Research

Running cost for different fuel options

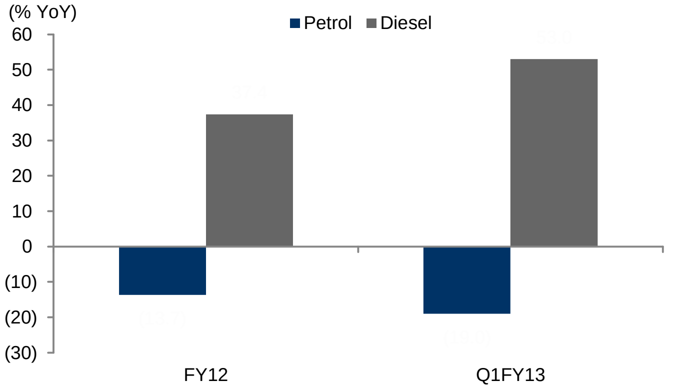


Source: Company

Within the overall small car space, the premium hatchback segment has seen the highest demand for diesel cars – in part owing to the availability of diesel options. Caught unawares by the demand shift, OEMs in FY12 saw bulging inventories for their petrol models on one hand, while struggling with capacities to meet demand for diesel models on the other.

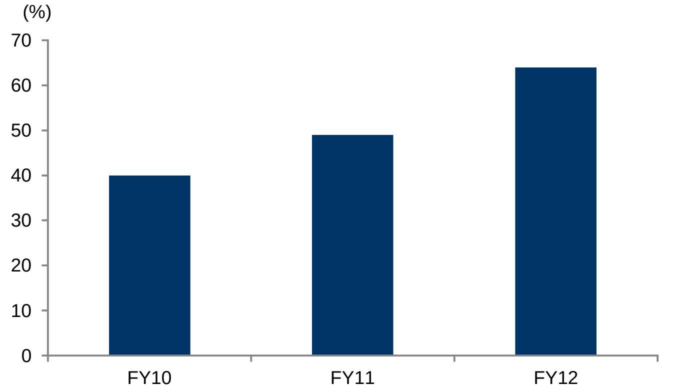
Spike in demand for diesel vehicles in FY12 caught manufacturers by surprise

Fig 27 - Diesel vehicles increased from 36% of domestic PV sales in 2010-11 to 47% in 2011-12



Source: Company, RCML Research

Fig 28 - Premium hatchback segment continues to see rising penetration of diesel cars over past two years



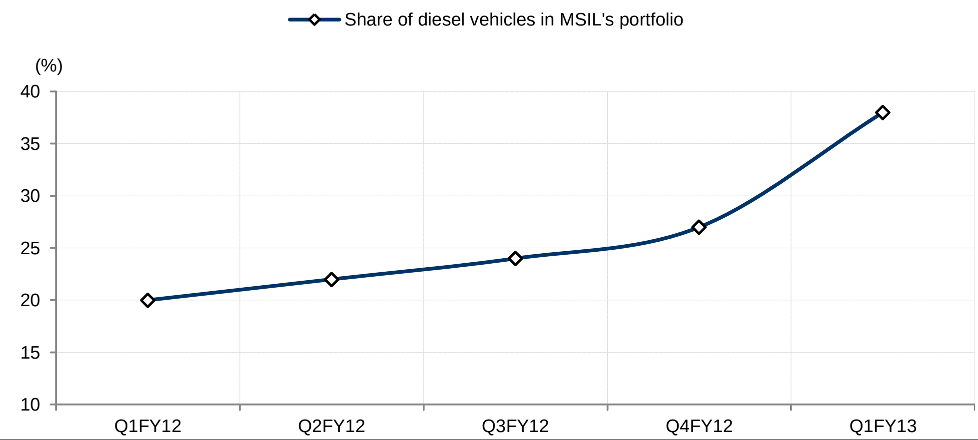
Source: Company, RCML Research

A lack of clarity on fuel pricing as also talks of imposition of additional tax on diesel cars has left some players dithering on committing to any timelines or quantum for diesel expansion – Hyundai being a case in point.

MSIL capitalising on demand with FIAT diesel tie-up and debottlenecking

MSIL, however, has chosen to take the plunge into the diesel space – in the medium term through a combination of diesel engine sourcing arrangements with FIAT and debottlenecking (150k units p.a. combined) and over the long term through diesel capacity creation (300k units p.a.). Thus, the company looks to take advantage not only of the wide chasm between petrol and diesel prices and resultant demand for diesel cars, but also of the reluctance on the part of competition to augment their own diesel capacities. Consequently, the share of diesel cars in MSIL's total sales has increased to 38% in Q1FY13 from 20% in Q1FY12.

Fig 29 - Share of diesel cars in MSIL's total sales has increased to 38% in Q1FY13 from 20% in Q1FY12



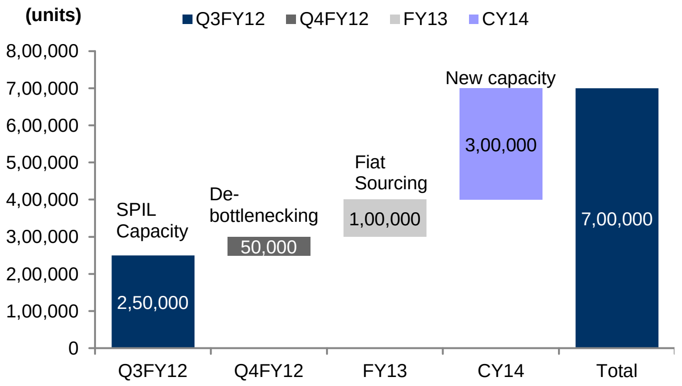
Source: Company, RCML Research

Fig 30 - MSIL is on par with rivals in terms of availability of fuel options for many of its best-selling models…

Segment	Company	Brands	Fuel Options		
			Diesel	CNG	LPG
	GM India	Spark			Yes
	Hyundai	Santro			Yes
Mini	Hyundai	Eon			Yes
	Maruti Suzuki	**Alto**		**Yes**	
	Maruti Suzuki	**Wagon-R**		**Yes**	**Yes**
	Maruti Suzuki	**Swift**	**Yes**		
	Maruti Suzuki	**Ritz**	**Yes**		
	Ford India	Figo	Yes		
Compact	VW India	Polo	Yes		
	GM India	Beat	Yes		Yes
	Hyundai	i10			Yes
	Hyundai	i20	Yes		

Source: RCML Research

Fig 31 - …but has also chosen to get aggressive on its diesel capacity: expanding from 300k units (FY12) to 700k units (CY14)



Source: Company, RCML Research

Suzuki Powertrain India (SPIL) merger: A value-accretive move

MSIL, on June 12th, 2012 announced the merger of its associate SPIL into itself. SPIL is the principal supplier of diesel engines to MSIL; prior to MSIL's tie-up with FIAT, SPIL was the sole supplier of these engines to MSIL. In FY12, sales to MSIL accounted for 90% of SPIL's revenues. Through the merger, the company seeks to bring in cost efficiencies through higher localisation (currently import content for SPIL stands at 30% of net sales), savings through consolidated raw material procurement and reduction of duplication in overheads.

Merger with diesel engine supplier SPIL to bring in cost efficiencies

Deal structure

- Mode of merger: Share swap, wherein MSIL will make a fresh issue of 13.17mn shares to Suzuki Motor Corp (SMC), Japan, in lieu of SMC's 70% holding in SPIL
- Swap ratio: 1:70 (SMC will receive one share of MSIL of Rs 5 each for every 70 shares of Rs 10 each it holds in SPIL)
- There will be no cash outflow from MSIL

What really changes?

- Post-merger of SPIL into MSIL, SPIL will become a 100% subsidiary of MSIL (vs. an associate company currently)
- Following issuance of shares to SMC (Japan), its stake in MSIL increases to 56.2% (vs. 54.2% currently)
- The entire exercise is expected to be completed by end-December'12; closure of the deal is subject to necessary regulatory and legal approvals

The deal is EPS-accretive based on an analysis of FY12 numbers. On back of higher capacities we expect higher contribution from SPIL to MSIL's bottomline in FY13.

We assign value of Rs 90 to SPIL based on its 14x FY14 earnings

Fig 32 - Financial comparison (FY12) – MSIL vs. SPIL

Balance Sheet (Rs mn)	MSIL	SPIL
Paid up Share Capital	1,445	13,170
Reserves & Surplus	150,429	3,840
Share holders Fund	151,874	17,010
Long Term Borrowings	-	5,053
Short Term Borrowings	10,783	
Other Non Current Liabilities	5672	1,108
Net Fixed Assets	81,321	21,334
Long Term Loans & Advances & Other Non Current Assets	16,978	231
Net Current Assets	-15805	555
Trade Investments	5368	
Cash & Cash Equivalents	80,467	1,051

P&L (Rs mn)	MSIL	SPIL
Net Sales	347,059	45,514
Other Income	17,080	872
Operating EBDITA	25,130	5,503
PAT	16,352	1,150
Ratios (%)		
Material Cost Ratio	80.9	75.3
Operating EBDITA	7.2	12.1
PAT	4.7	2.5
Debt /Net Worth Ratio	-	0.3

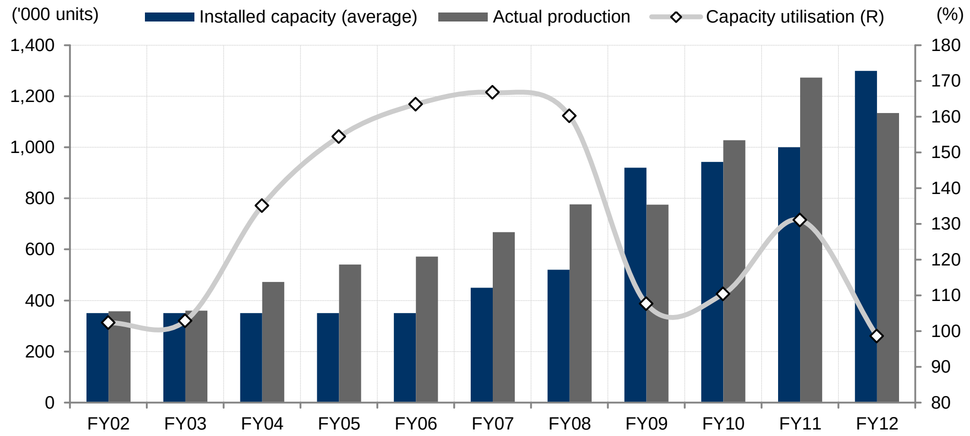
Source: Company, RCML Research

Well placed capacity-wise

The company is on track to have expanded capacities in place for potential demand growth in the next two years as the base becomes favourable. The start of the Manesar facility and 500k units of expansion here should take care of demand growth in the coming years. Further, MSIL's Gujarat plans (and plant) should gear the company up for structural demand growth over the next 3-5 years.

Looking at a capacity base of 2mn units upon completion of phase 1 at Gujarat

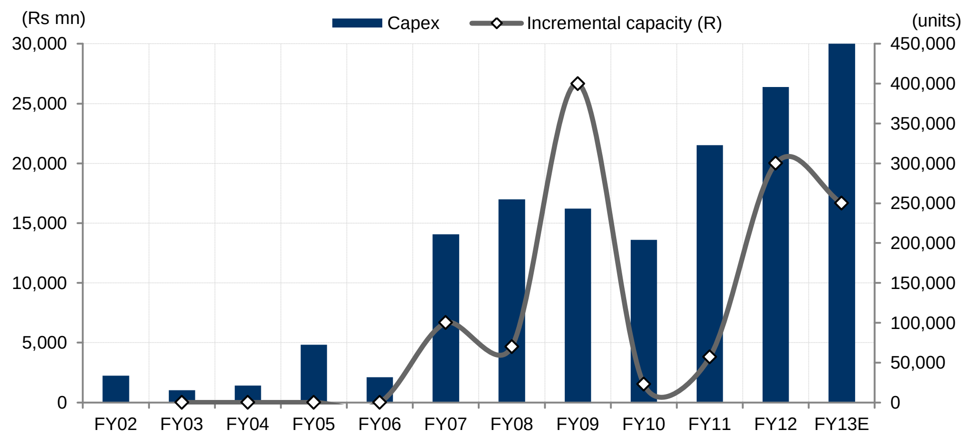
Fig 33 - MSIL has historically operated at 100%+ utilisation; suggesting potential volume/market share losses as capacity lagged demand



Source: Company, RCML Research

While capacity has grown over the years it has often fallen short of demand, necessitating substantial debottlenecking

Fig 34 - Capacity creation has gathered pace in the last 5 years



Source: Company, RCML Research

With over 60% capacity expansion in FY11-12, MSIL, unlike in the past, stands better placed to capture positive demand surprises

HOLD

TP: INR 1,350.00

▲ 10.6%

Maruti Suzuki

MSIL IN

Company Initiation

INDIA

AUTOMOBILES

¥ pain or $ drubbing… or both?

Over the years, the reliance of MSIL and its vendors on Japanese imports (25-28% of sales) has exposed the company to appreciation of the Yen against the USD; often the pain has been compounded by the INR weakening against the USD. Consequently, while the company has been able to log strong revenue growth, its profitability has lagged behind substantially owing to the negative fallout of adverse currency fluctuations on MSIL's margins.

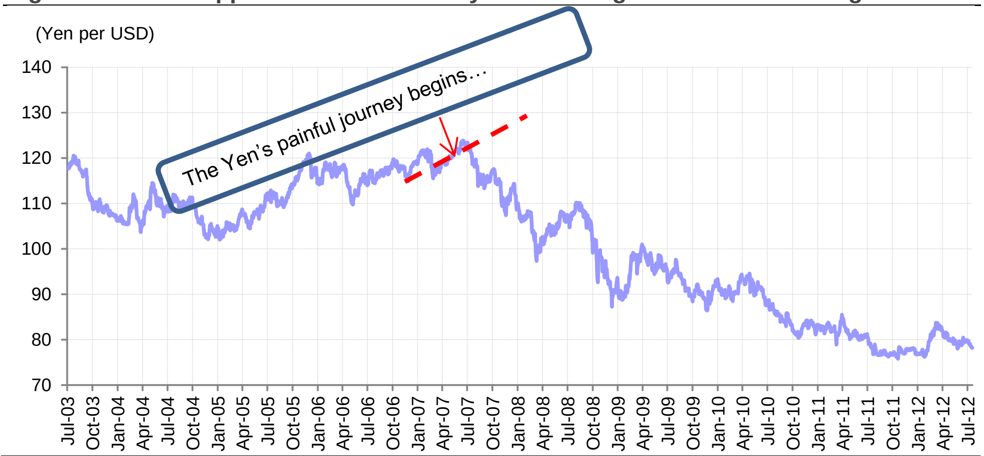
For MSIL, profit growth has lagged revenue growth

CAGR (%)	3 years	5 years	8 years
Revenues	19.4	19.0	18.4
PAT	6.0	-1.1	11.9

Source: Company

25-28% of sales exposed to Yen/INR fluctuation

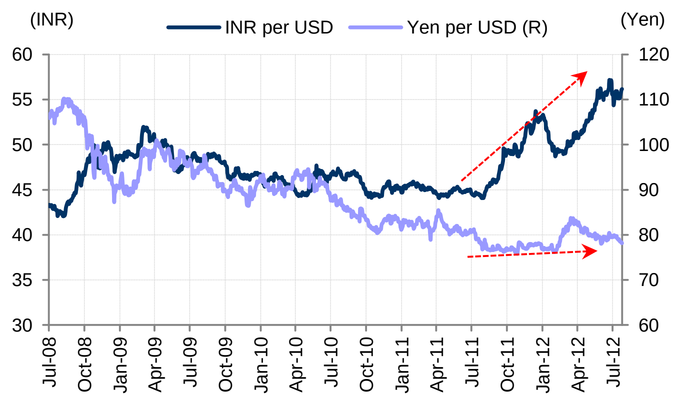
Fig 35 - The Yen appreciated unabated by over 30% against the USD through FY08-12



Source: Bloomberg, RCML Research

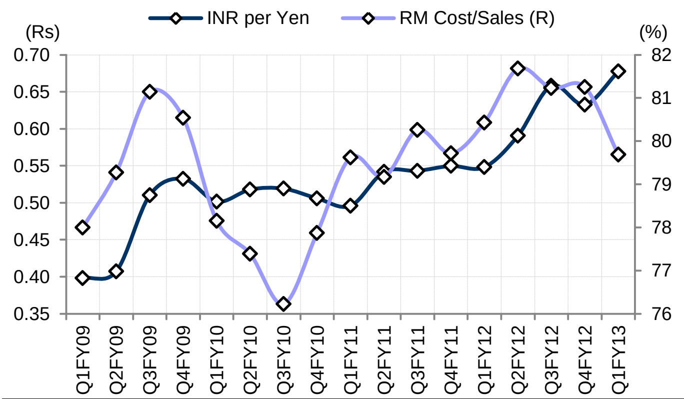
In FY12 just when the Yen stabilised against the USD, the INR capitulated against the latter dashing hopes of relief on the currency front for MSIL as the Yen's appreciation against the INR continued unchecked. We believe every 1% change in Yen/INR rate impacts MSIL's EPS by 3-4%.

Fig 36 - More recently just when the Yen stabilised against the USD, the INR capitulated against the latter



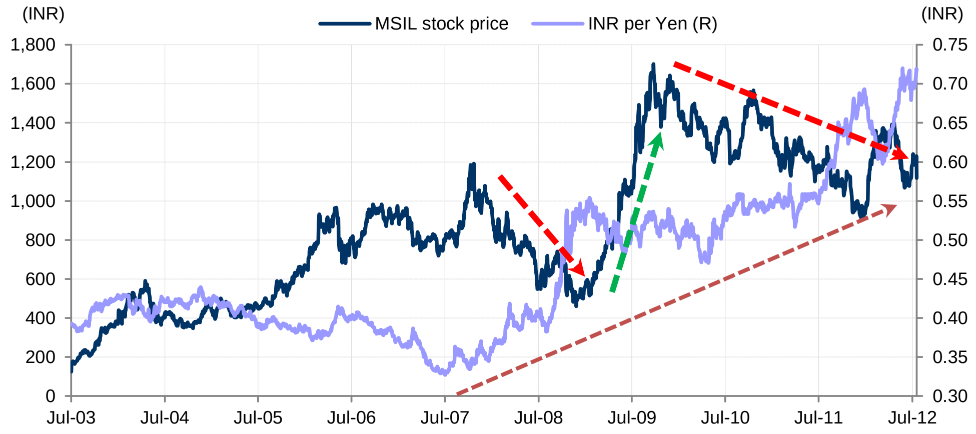
Source: Bloomberg, RCML Research

Fig 37 - So neither pricing actions nor forex hedges could staunch MSIL's haemorrhaging gross margins



Source: Bloomberg, Company, RCML Research

Fig 38 - Weighed by concerns over currency, MSIL's stock has delivered sub-optimal returns in the last few years

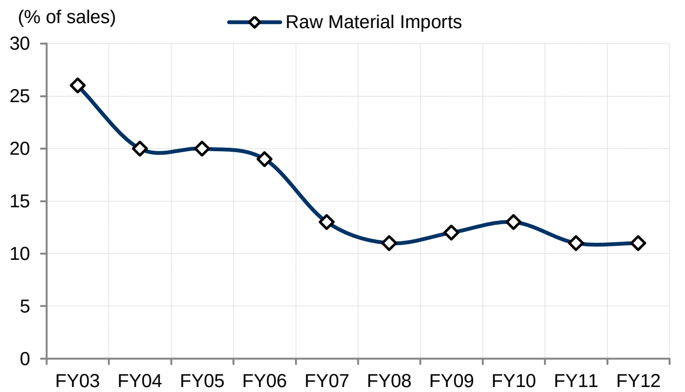


Source: Bloomberg, RCML Research

Every 1% change in Yen/INR rate impacts MSIL's EPS by 3-4%

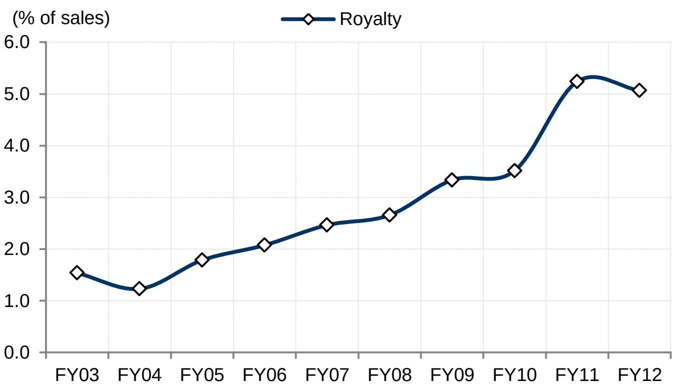
However, the company has managed to bring about a meaningful reduction in raw material imports on its own account. With direct imports now prevailing at more reasonable levels of 10-11% (of sales) in FY12, the company is now looking to reduce vendor imports – from current levels of 15% of sales to 9% through localisation initiatives over the next three years.

Fig 39 - With direct imports now at more reasonable levels, MSIL is now looking to wield the axe on vendor imports



Source: Company, RCML Research

Fig 40 - Royalty payment (Yen-denominated) to parent SMC will however remain susceptible to currency swings

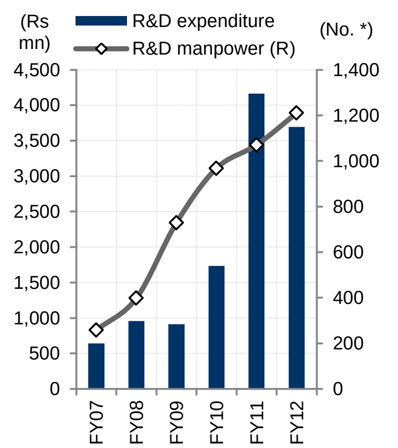


Source: Company, RCML Research

Royalty payment (Yen-denominated) to parent SMC continues to be a big cost head for MSIL. But with the company making its first major investment (Rs 20bn-24bn) at the recently inaugurated Rohtak R&D facility – an integrated facility for vehicle testing and evaluation, crucial for developing new car models, royalty payments could reduce over the long term.

"Maruti Suzuki's R&D centre at Rohtak will be equipped with latest R&D infrastructure and world class test tracks. It will augment the R&D capability of Maruti Suzuki engineers manifold. This will enable us to design, develop and launch cars at a faster pace." – Maruti Suzuki

MSIL is looking to raise the bar on the R&D front



Source: Company, RCML Research
*No. of employees

Financials

Product mix, low base to drive earnings growth

We expect a volume CAGR of 11% over FY12-FY14

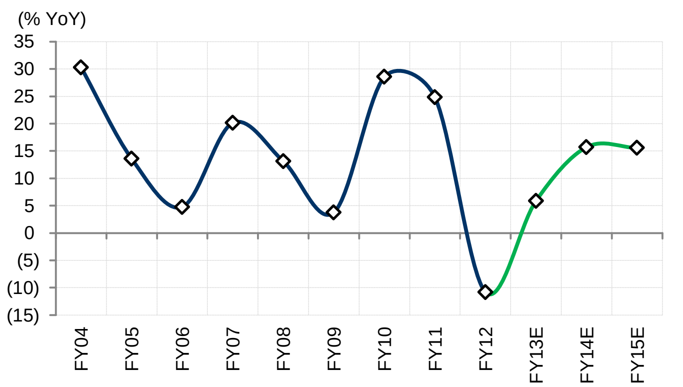
Following lacklustre volume growth over FY12 and H1FY13, we believe MSIL's volumes are likely to pick up on the back of:

a) Recovery in volumes for entry segment cars as the base remains low,

b) Continued higher demand for diesel cars.

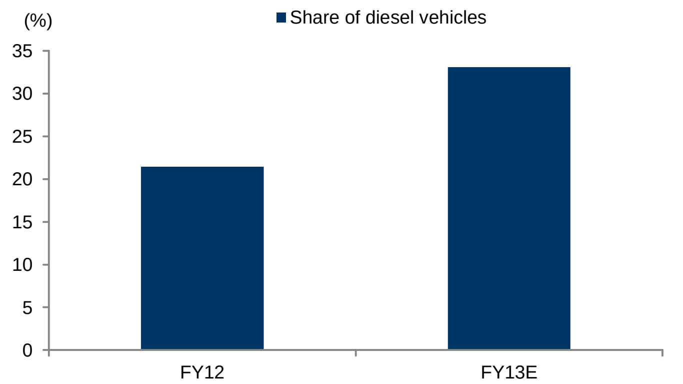
Consequently we expect the company to report a volume CAGR of 11% over FY12-FY14. Additionally, a rising share of higher-realisation vehicles (greater proportion of diesel cars and premium brands – Swift/Dzire/Ertiga – in MSIL's portfolio) would lead to stronger revenue growth.

Fig 41 - Recovery in volumes (FY12-FY14 CAGR: 11.0%)



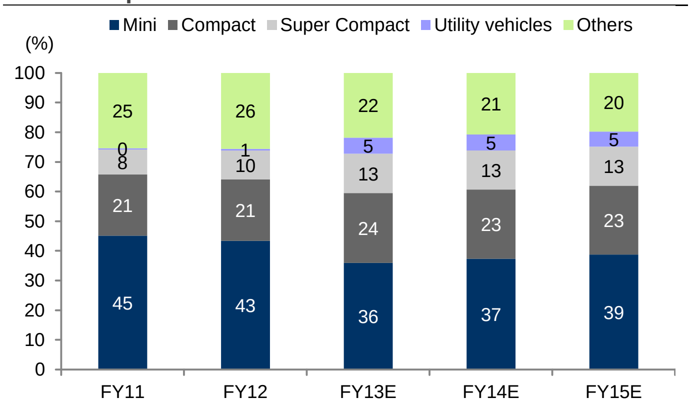
Source: Company, RCML Research

Fig 42 - Richer product mix – higher share of diesel vehicles



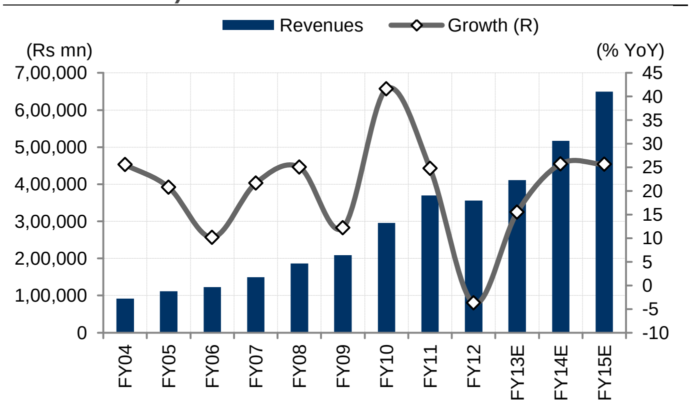
Source: Company, RCML Research

Fig 43 - Rising contribution of Swift/Dzire/Ertiga brands in MSIL's portfolio



Source: Company, RCML Research

Fig 44 - Strong revenue growth expected (FY12-FY14 CAGR: 20%)

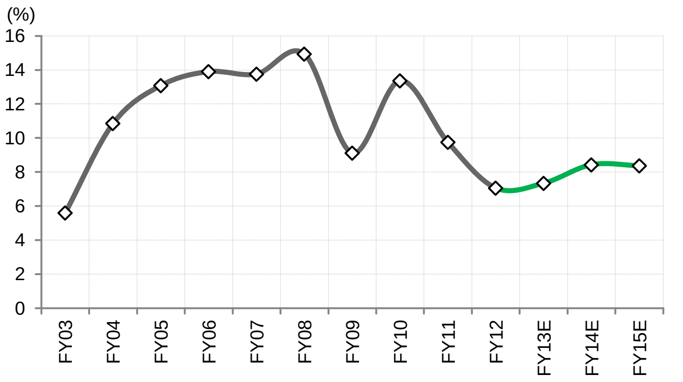


Source: Company, RCML Research

Benefits of operating leverage to kick in from FY14

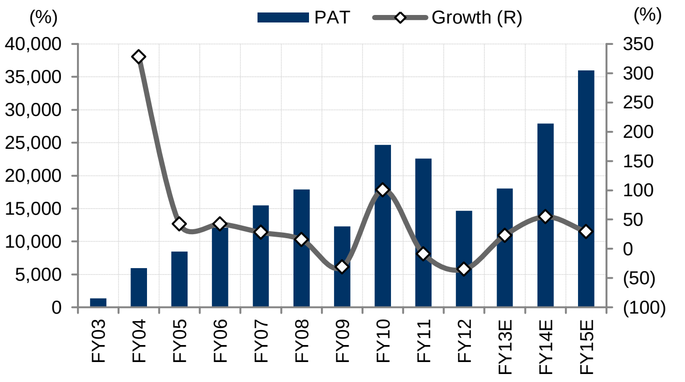
While a superior product mix will aid margins, we are building in modest margin expansion of 20bps in FY13 from the low seen in FY12 (7.1%); we however expect stronger expansion (110bps) in FY14 as benefits of operating leverage (on much strong volume growth of 16%) kick in during that year. Consequent to recovery in volumes/margins and a superior product mix, we expect MSIL to clock earnings CAGR of 35% over FY12-FY14.

Fig 45 - Margin recovery ahead



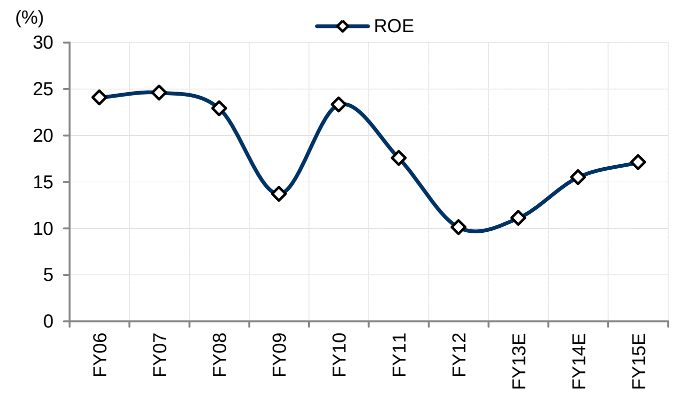
Source: Company, RCML Research

Fig 46 - Should lead to 35% PAT CAGR over FY12-FY14



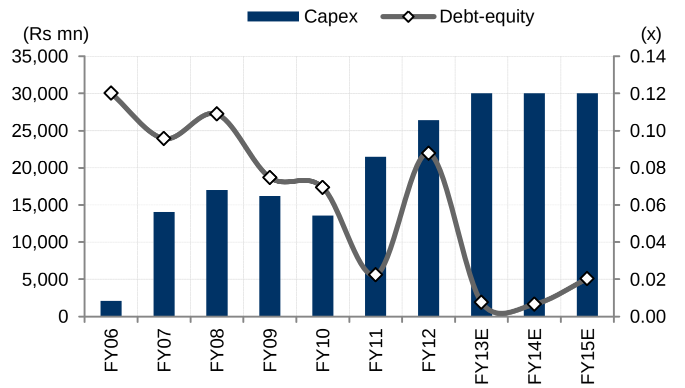
Source: Company, RCML Research

Fig 47 - With earnings recovery, MSIL's ROE profile too will turn healthy



Source: Company, RCML Research

Fig 48 - With cash at Rs 80bn (FY12 end), we expect most capex to be funded internally; debt to thus remain low



Source: Company, RCML Research

Sensitivity

Our sensitivity analysis suggests that a 150bps decline in margins and a 10% fall in volumes (from our base case) would lead to ~24% downside from the CMP of Rs 1,220.

Fig 49 - Sensitivity analysis on FY14 EPS

		Volume growth (CAGR %)				
EBITDA Margin Variance vs. Base Case (%)	(EPS)	-10%	-5%	0	5%	10%
	-1.5%	60.9	66.5	72.1	77.6	83.2
	-1.0%	66.9	72.8	78.7	84.6	90.5
	0%	79.0	85.5	92.0	98.6	105.1
	1.0%	91.0	98.2	105.3	112.5	119.7
	1.5%	97.0	104.5	112.0	119.5	127.0

Source: RCML Research

Fig 50 - Sensitivity analysis on PT

		Volume growth (CAGR %)				
EBITDA Margin Variance vs. Base Case (%)	(Rs/Share)	-10%	-5%	0	5%	10%
	-1.5%	930	1,005	1,080	1,155	1,230
	-1.0%	1,011	1,091	1,170	1,249	1,329
	0%	1,173	1,261	1,350	1,438	1,526
	1.0%	1,335	1,432	1,529	1,627	1,724
	1.5%	1,416	1,518	1,619	1,721	1,822

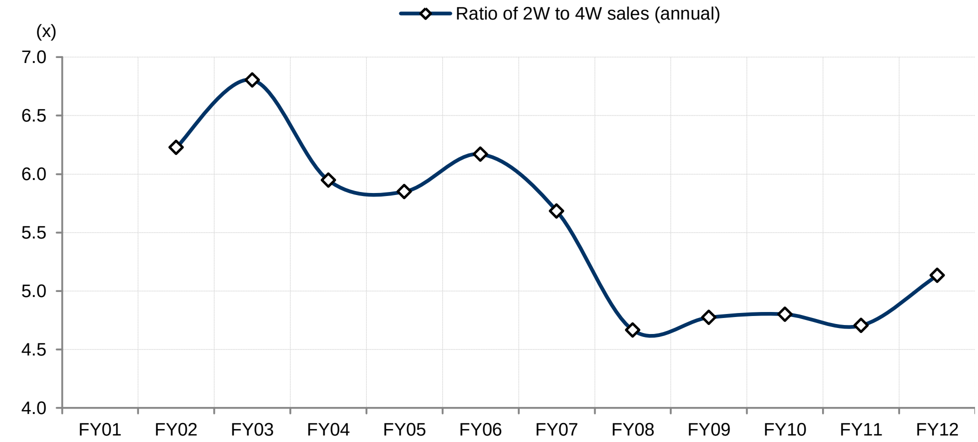
Source: RCML Research

Appendix

The Indian Passenger Vehicle Market: Small car, Big share

While car purchases today continue to be tagged as discretionary, factors such as employment generation, rise in disposable incomes, increasing affordability, favourable demographics and underdeveloped transport infrastructure have all contributed to healthy growth in passenger vehicle (PV) volumes over the past decade. The Indian PV market has grown at a CAGR of 14.5% over the last decade (13.7% over the last five years), with over 11mn vehicles sold in the past five years. While incumbents have accounted for a bulk of the growth, of late new entrants too have contributed meaningfully. We have estimated a domestic passenger vehicle growth of 7%/15% respectively for FY13/FY14.

Fig 51 - With improving levels of per capita income, more and more consumers look to own a car



Source: CMIE, RCML Research

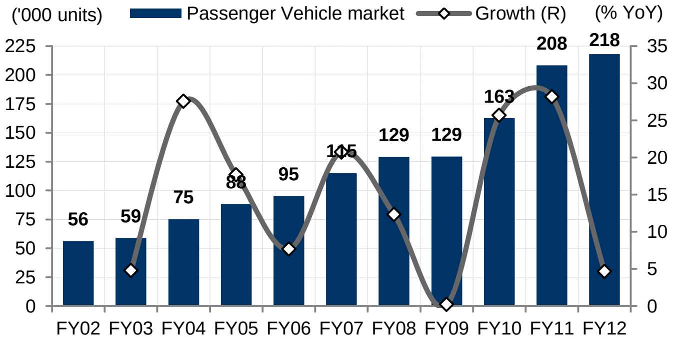
Ratio of 2W to 4W sales has trended down over the last decade from 6.2x to 5.0x – characteristic of a maturing market

Despite the growth, penetration levels (12 PVs per thousand people) remain low, affording a sizeable opportunity – as is evident from announcements made on capacity expansion as well as launches by new entrants and incumbents alike. Our recent (July 2012) pan-India consumer survey of 1,500 respondents across 35 tier-1/2 towns and cities reveals low car ownership – only 40% owned a car versus 70% who owned a two-wheeler.

Strong response to new launches, *XUV 500* and the *Ertiga*, amidst macro gloom suggest latent potential for the UV segment

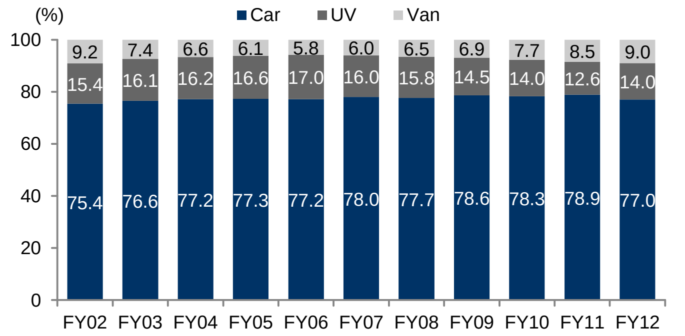
The India PV market continues to be dominated by the car segment, as one would expect in an evolving market. While this is in large measure due to affordability, maturity of the market and benefits of owning a smaller car (especially in an urban milieu), the preponderance can in part be also explained by the focus and emphasis of OEMs on the segment to drive growth. Of late though, on the back of key launches and latent demand, the Utility Vehicle (UV) market too seems to hold considerable growth potential – as the Indian buyer looks to uptrade to relatively premium segments of the PV market. Consequently, while volume potential remains very much in place, the revenue potential of the market too is gradually becoming more attractive.

Fig 52 - The Indian PV market has logged healthy growth over the last decade: CAGR of 14.5%…



Source: CMIE, RCML Research | *Volumes are annual average monthly run-rates

Fig 53 - …the car segment remains the mainstay

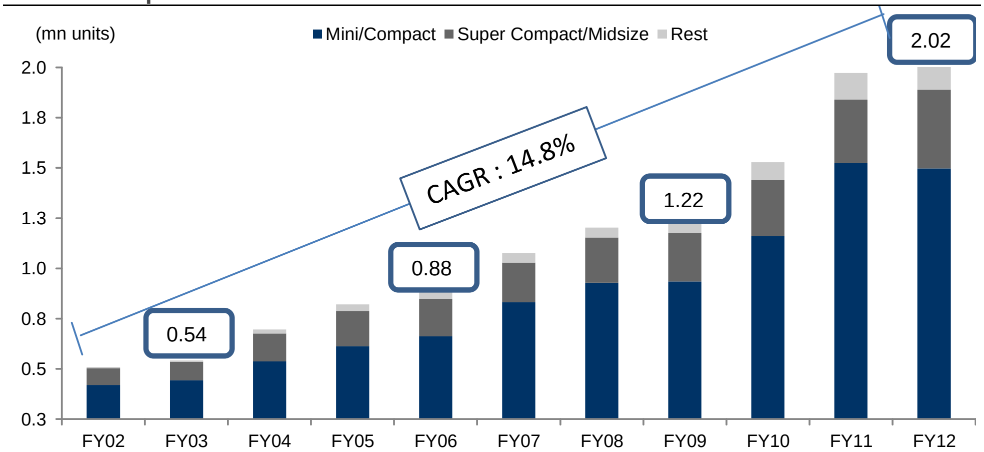


Source: CMIE, RCML Research

Small car segments (*mini* and *compact*) continue to rule the roost in India

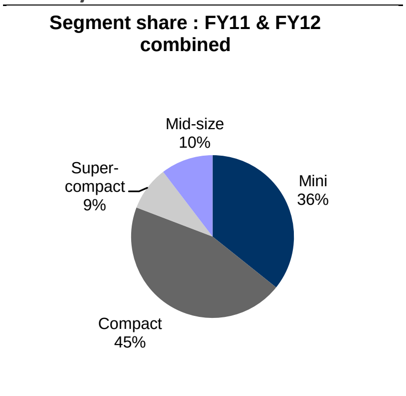
Given historically low car penetration levels, it's understandable that within the car market, the small car segments (*mini* and *compact*) continue to rule the roost. Smaller ticket size, relative affordability (payment either through personal equity or financing) for the purchase and, to a certain extent, necessity-led buying (owing to scant transport infrastructure in many pockets) are key reasons why the small car segment has historically held sway. Consequently, today 65% of the brands in the mini-to-mid size car market (95% of the market) belong to the mini/compact category.

Fig 54 - Led by the small-car segment, the car industry has reported strong growth over the past decade



Source: CMIE, RCML Research

Share of sub-segments in the car industry



Source: CMIE

While small cars remain the preferred mode of transport for car owners, rising aspirations and income levels have driven consumers to look for better and bigger cars, even at a premium. Consequently, within the small car segment the share of the compact category (Swift/Figo/Polo/Beat) has risen in recent times. Additionally, OEMs keen to see buyers uptrade have ended up creating an altogether new segment (super-compact), which too in a short span has managed to carve out a sizeable chunk of the market. Both segments – compact and super-compact – together accounted for 55% of cars sold over FY11-FY12.

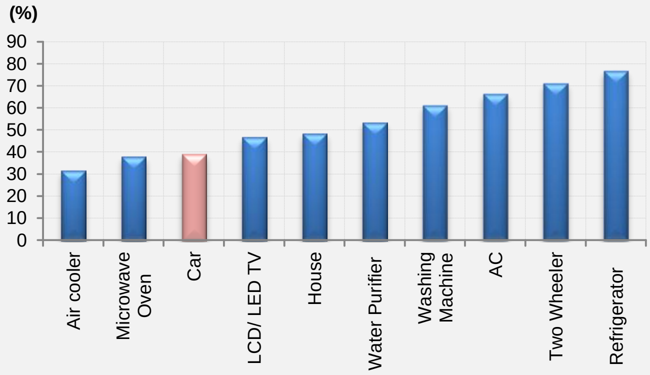
Fig 55 - Profile of mini-to-midsize car market

	No. of Players	No. of Brands	Indicative price range*	Indicative brands
Mini	3	7	INR 200k-380k	Alto/Wagon-R/Santro/Eon
Compact	12	20	INR 380k-585k	Swift/Figo/Polo/Beat
Super-compact	4	4	INR 490k-530k	Dzire/Etios
Mid-size	10	12	INR 550k-735k	City/Vento/Verna
Overall	14	43	INR 200k-735k	

Source: RCML Research | *prices of basic model (ex-showroom New Delhi)

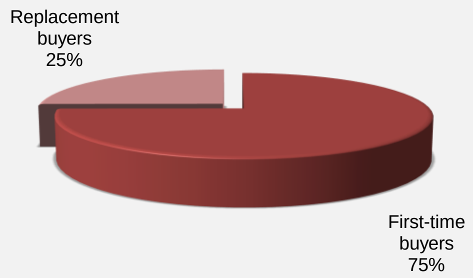
Religare Urban Consumer Survey III (May'12): Key findings

Fig 56 - Automobile ownership: 40% of ~1,600 survey respondents owned a car



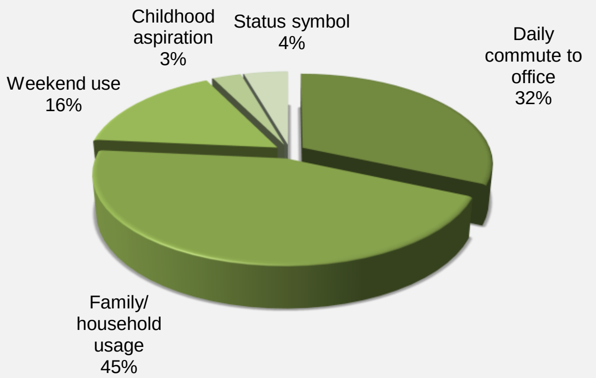
Source: RCML Research

Fig 57 - Profile of potential car buyers: 75% of respondents buying a car are first-time buyers



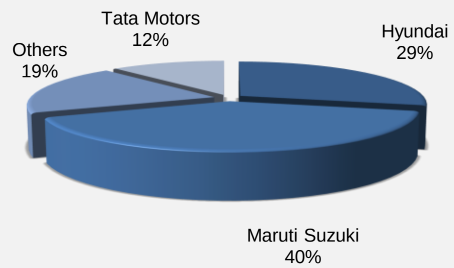
Source: RCML Research

Fig 58 - Primary reason for buying a car: Respondents buy a car mainly for family use and daily commute to office



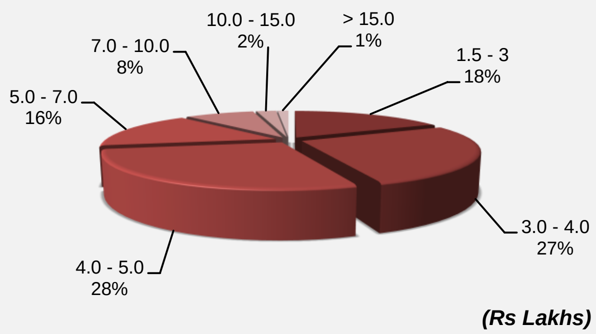
Source: RCML Research

Fig 59 - Brand preferences of potential car buyers: Maruti remains the most preferred brand; Hyundai follows



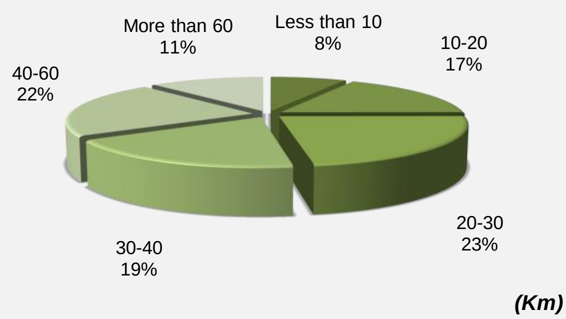
Source: RCML Research

Fig 60 - Budget of potential car buyers: Demand largely concentrated in compact & super-compact segments



Source: RCML Research

Fig 61 - Daily usage of car owners: 42% of car owners travel 20-40km per day



Source: RCML Research

HOLD

TP: INR 1,350.00

▲ 10.6%

Maruti Suzuki

MSIL IN

Company Initiation

INDIA

AUTOMOBILES

Per Share Data

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	79.2	56.6	58.7	92.3	118.3
Adjusted EPS	78.1	50.7	58.7	92.3	118.3
DPS	7.5	7.5	7.5	7.5	7.5
BVPS	480.0	525.7	552.7	636.3	745.9

Valuation Ratios (adjusted for value of SPIL)

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
EV/Sales	0.8	0.9	0.7	0.6	0.4
EV/EBITDA	8.1	12.6	10.3	6.9	5.1
Adjusted P/E	16.2	26.6	20.8	13.2	10.3
P/BV	2.6	2.6	2.2	1.9	1.6

Financial Ratios

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Profitability & Return Ratios (%)					
EBITDA margin	9.7	7.1	7.3	8.4	8.5
EBIT margin	7.0	3.9	4.0	5.4	5.7
Adjusted profit margin	6.1	4.1	4.3	5.4	5.5
Adjusted ROAE	17.6	10.1	11.1	15.5	17.1
ROCE	14.2	6.8	7.7	11.8	13.2
YoY Growth (%)					
Revenue	24.8	(3.7)	15.5	25.7	25.6
EBITDA	(9.0)	(30.2)	18.7	46.0	27.3
Adjusted EPS	(8.6)	(35.1)	15.8	57.3	28.2
Invested capital	21.9	21.0	34.3	16.9	12.7
Working Capital & Liquidity Ratios					
Receivables (days)	9	10	9	9	9
Inventory (days)	17	21	20	18	18
Payables (days)	29	35	34	33	33
Current ratio (x)	2.8	2.0	2.1	2.1	2.2
Quick ratio (x)	2.4	1.8	1.8	1.8	1.8
Turnover & Leverage Ratios (x)					
Gross asset turnover	3.1	2.5	2.4	2.5	2.8
Total asset turnover	2.0	1.6	1.8	2.0	2.1
Net interest coverage ratio	106.1	24.9	39.1	86.7	107.7
Adjusted debt/equity	0.0	0.1	0.0	0.0	0.0

DuPont Analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Tax burden (Net income/PBT)	72.6	68.2	78.0	78.0	76.0
Interest burden (PBT/EBIT)	120.1	156.2	137.1	128.6	127.2
EBIT margin (EBIT/Revenue)	7.0	3.9	4.0	5.4	5.7
Asset turnover (Revenue/Avg TA)	214.4	176.8	183.4	209.7	225.0
Leverage (Avg TA/Avg equities)	134.2	138.6	140.5	137.2	138.2
Adjusted ROAE	17.6	10.1	11.1	15.5	17.1

Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Total revenue	**3,69,638**	**3,55,871**	**4,10,998**	**5,16,786**	**6,49,232**
EBITDA	36,015	25,125	29,825	43,546	55,437
EBIT	25,880	13,741	16,571	27,803	36,984
Net interest income/(expenses)	(244)	(552)	(424)	(321)	(344)
Other income/(expenses)	4,990	5,834	6,576	8,269	10,388
Exceptional items	458	2,434	0	0	0
EBT	31,084	21,457	22,724	35,751	47,028
Income taxes	(8,202)	(5,110)	(4,999)	(7,865)	(11,287)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	**22,882**	**16,347**	**17,724**	**27,885**	**35,741**
Adjustments	(321)	(1,704)	0	0	0
Adjusted net profit	**22,562**	**14,643**	**17,724**	**27,885**	**35,741**

Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Accounts payables	29,495	33,499	37,774	46,925	58,956
Other current liabilities	6,045	14,306	8,220	10,336	12,985
Provisions	5,258	6,985	9,618	9,618	9,618
Debt funds	3,093	12,369	4,580	4,580	4,580
Other liabilities	0	966	966	966	966
Equity capital	1,445	1,445	1,445	1,445	1,445
Reserves & surplus	1,37,230	1,50,429	1,65,521	1,90,774	2,23,883
Shareholders' fund	1,38,675	1,51,874	1,66,965	1,92,218	2,25,327
Total liabilities and equities	**1,82,566**	**2,19,999**	**2,28,123**	**2,64,643**	**3,12,431**
Cash and cash eq.	76,138	80,517	60,548	67,813	85,060
Accounts receivables	8,933	9,376	10,134	12,743	16,008
Inventories	14,150	17,965	17,569	21,826	27,421
Other current assets	15,395	28,262	30,825	38,759	48,692
Investments	14	5,318	5,368	5,368	5,368
Net fixed assets	55,294	73,108	89,854	1,04,110	1,15,657
CWIP	14,286	6,114	14,286	14,286	14,286
Intangible assets	0	2,099	2,099	2,099	2,099
Deferred tax assets, net	(1,644)	(3,023)	(2,823)	(2,623)	(2,423)
Other assets	0	263	263	263	263
Total assets	**1,82,566**	**2,19,999**	**2,28,123**	**2,64,643**	**3,12,431**

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Net income + Depreciation	33,017	27,731	30,978	43,629	54,195
Interest expenses	(3,950)	(4,183)	(7,243)	(7,948)	(10,044)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	4,171	(1,159)	(4,736)	(3,532)	(4,115)
Other operating cash flows	(2,735)	(95)	(200)	(200)	(200)
Cash flow from operations	**30,503**	**22,294**	**18,799**	**31,949**	**39,835**
Capital expenditures	(24,199)	(26,392)	(38,172)	(30,000)	(30,000)
Change in investments	21,338	(7,751)	9,950	5,000	0
Other investing cash flows	3,595	4,960	7,667	8,269	10,388
Cash flow from investing	**734**	**(29,183)**	**(20,555)**	**(16,731)**	**(19,612)**
Equities issued	0	0	0	0	0
Debt raised/repaid	(5,123)	9,109	(7,789)	0	0
Interest expenses	(278)	(426)	(424)	(321)	(344)
Dividends paid	(1,733)	(2,167)	0	(2,633)	(2,633)
Other financing cash flows	0	(1,362)	0	0	0
Cash flow from financing	**(7,134)**	**5,154**	**(8,213)**	**(2,953)**	**(2,976)**
Changes in cash and cash eq	**24,103**	**(1,735)**	**(9,969)**	**12,264**	**17,247**
Closing cash and cash eq	**25,085**	**23,350**	**14,392**	**26,657**	**43,904**

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Hold	Between 15% and –5%
Sell	Less than –5%

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