Fullerton Securities

Result Update

July 29, 2011

MARUTI SUZUKI INDIA LTD. — BUY

Maruti Suzuki India Ltd. (Maruti) reported Q1FY12 results which were ahead of consensus numbers. The company reported net sales of Rs 85.29bn, registering 3.6% Y-o-Y increase and 15.5% Q-o-Q decrease. Operating profit for the quarter stood at Rs 8.14bn, 2.8% Y-o-Y increase and 19.3% Q-o-Q decrease. PAT for the quarter stood at Rs 5.49bn, 18% Y-o-Y increase and 16.8% Q-o-Q decrease.

- Net sales for the company increased 3.6% on a Y-o-Y basis, led by 3.2% growth in domestic volumes to 250 thousand units. On a sequential basis, net sales fell as a result of loss of production, due to more than 10 days strike at the 'Manesar' plant. Export volumes declined by 24% on a sequential basis (fifth consecutive quarter of negative sequential growth) due to slowdown in Europe sales, which contributed 33% of total export sales in Q1FY12.
- Realization increase limited the drop in net sales, as realization increased by 2.5% on a sequential basis due to better product mix (higher proportion of diesel units). Management foresee a slower growth in FY12 due to increase in petrol prices and interest rates, however they sight an uptick in FY13.
- Operating margin reduced by 46 bps on a sequential basis due to increase in commodity prices and the appreciation of Yen during the quarter. Yen exposure is hedged till Q2FY12 and the volatility in Yen rates may have an impact in Q3 & Q4FY12. Management does not see an increase in raw material prices for Q2FY12.
- Maruti plans CAPEX of Rs 40bn in FY12 and Rs 30bn in FY13 largely towards capacity addition, marketing infrastructure and R&D. The company plans to increase its diesel units capacity from 0.25mn to 0.3mn units by H2FY12.
- **Based on standalone FY13E EPS, on a P/E multiple of 13, the fair value for the company works out to be Rs 1,435**

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

***Strong Buy –** Expected Returns > 20% p.a.*
***Buy –** Expected Returns from 10 to 20% p.a.*
***Hold –** Expected Returns from 0 % to 10% p.a.*
***Reduce –** Expected Returns from 0 % to 10% p.a. with possible downside risk*
***Sell –** Returns < 0 %*

STOCK DATA

BSE / NSE Code	532500/ MARUTI
CMP Rs (28th July'11)	1,186
Market Cap (Rs. mn)	342,647
52 Week High-low	1600/ 1087

STOCK RETURN (%)

	30D	3M	6M	1Y
Maruti	2%	-9%	-4%	-1%
Sensex	-2%	-6%	-1%	1%
Nifty	-1%	-5%	0%	2%

Yen exposure is hedged till Q2FY12

Capacity expansion plans of diesel units from 0.25mn to 0.3mn units by H2FY12

Financial Snapshot

Rs. mn.	Q1FY12	Q1FY 11	Q4FY 11	% chg YoY	% chg QoQ	FY10	FY11	% chg YoY	FY12 E	FY13 E
Net Sales	85,293	82,315	100,922	*3.6%*	*-15.5%*	290,989	362,997	*24.7%*	405,539	453,684
Total expense	77,149	74,390	90,825	*3.7%*	*-15.1%*	258,621	333,757	*29.1%*	367,397	405,575
Operating Profit	8,144	7,925	10,097	*2.8%*	*-19.3%*	32,368	29,240	*-9.7%*	38,143	48,109
Operating margin %	9.5%	9.6%	10.0%			11.1%	8.1%		9.4%	10.6%
Net Income	5,492	4,654	6,599	*18.0%*	*-16.8%*	24,186	22,886	*-5.4%*	25,003	31,887
PAT margin %	6.4%	5.7%	6.5%			8.3%	6.3%		6.2%	7.0%
EPS Rs.	19.0	16.1	22.8	*18.0%*	*-16.8%*	83.7	79.2	*-5.4%*	86.5	110.4
Book value/ share Rs.									562	666
PERx									13.7	10.7
P/BV									2.1	1.8

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OTHER HIGHLIGHTS

- The company's outlook on market is sluggish for FY12 and the recent 50 bps repo rate increase is expected to impact the consumer sentiments. It expects the car demand to improve with festive season, subsequently.
- Management expects the commodity prices to remain flat for Q2FY12 due to steel contract that exists till H1FY12 and forex hedge for Q2FY11. The company plans to reduce import content of vendors by 2-3% every year from current 15% of net sales.
- The discounts are likely to increase due to increase in interest rates and impact on consumer sentiment. The discounts were higher by Rs 1,200 per vehicle in Q1FY12 compared to Q1FY11.
- Witnessing good response to new Swift that would be launched in Aug 2011, the company has stopped the production of old Swift. Diesel variants (in SX4, Swift, DZire and Ritz) constituted 21% of domestic sales in Q1FY12 compared to 19% in Q4FY11. Royalty of the company was around 5-5.5% and it's expected to continue in that range for FY12.

Based on standalone FY13E EPS, on a P/E multiple of 13, the fair value for the company works out to be Rs 1,435. We upgrade our rating from 'HOLD' to **'BUY'** due to the recent (3 months) price underperformance and improved realization.

Car demand is currently sluggish which is expected to improve with the festive season

Discounts are likely to increase in the coming quarter

Royalty is expected to continue in the range of 5-5.5%

Financial Analysis and Projections

Particulars (Rs. mn.)	**FY09**	**FY10**	**FY11**	**FY12 E**	**FY13 E**
Net Sales	204,537	290,989	362,997	405,539	453,684
growth %	*14.3%*	*42.3%*	*24.7%*	*11.7%*	*11.9%*
Total expense	187,387	258,621	333,757	367,397	405,575
Operating Profit	17,150	32,368	29,240	38,143	48,109
growth %	*-12.4%*	*88.7%*	*-9.7%*	*30.4%*	*26.1%*
Operating margin %	8.4%	11.1%	8.1%	9.4%	10.6%
Other Income	10,001	10,209	7,404	8,271	9,253
EBITDA	24,333	44,510	41,467	46,414	57,362
Depreciation	7,065	8,250	10,135	11,323	12,667
PBT	16,758	35,925	31,088	34,726	44,287
Income tax	4,571	10,949	8,201	9,723	12,400
Net Income	10,726	24,186	22,886	25,003	31,887
growth %	*-35.8%*	*125.5%*	*-5.4%*	*9.2%*	*27.5%*
PAT margin %	5.2%	8.3%	6.3%	6.2%	7.0%
EPS Rs.	37.1	83.7	79.2	86.5	110.4
ROE %	11%	20%	16%	15%	17%
BVPS Rs.	323	410	481	562	666
Valuation Ratios				**FY12 E**	**FY13 E**
P/E				13.7	10.7
P/BV				2.1	1.8

Outlook:

- Total domestic units are estimated to grow at 10.1% CAGR over FY11-13.
- Average realization is estimated to grow at 1.5% CAGR over FY11-13.
- Net sales is expected to grow 11.8% CAGR and PAT is expected to grow 18% CAGR over FY11-13 dented by lower growth forecast in FY12.

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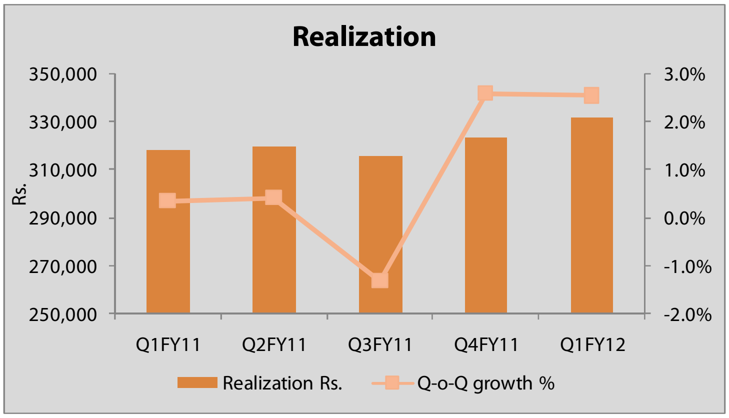
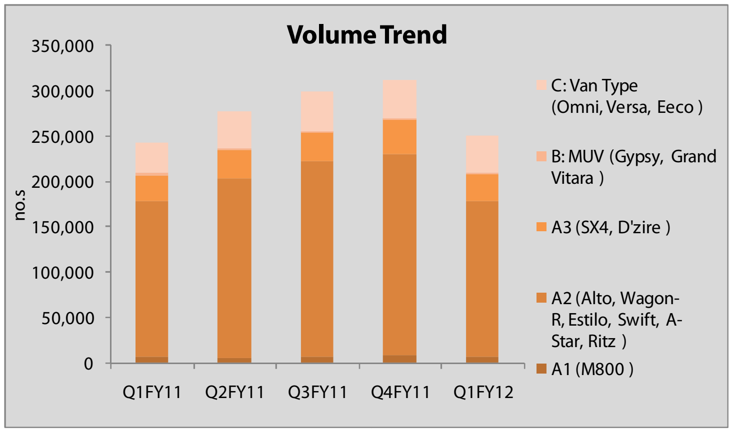
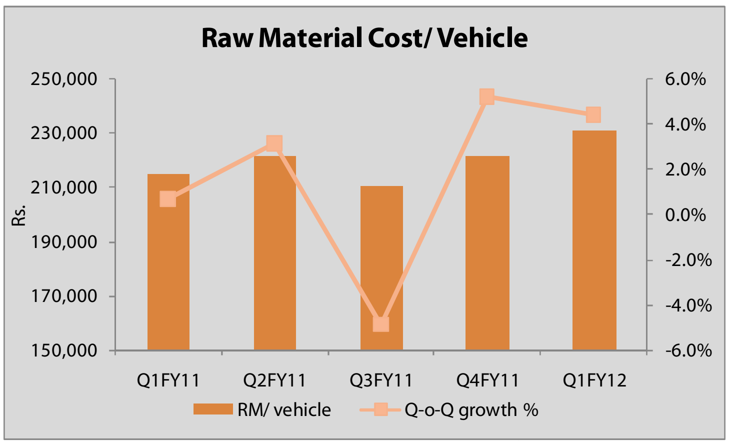
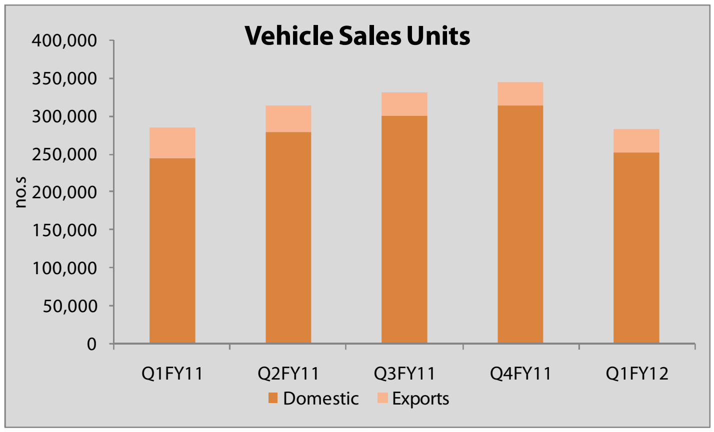


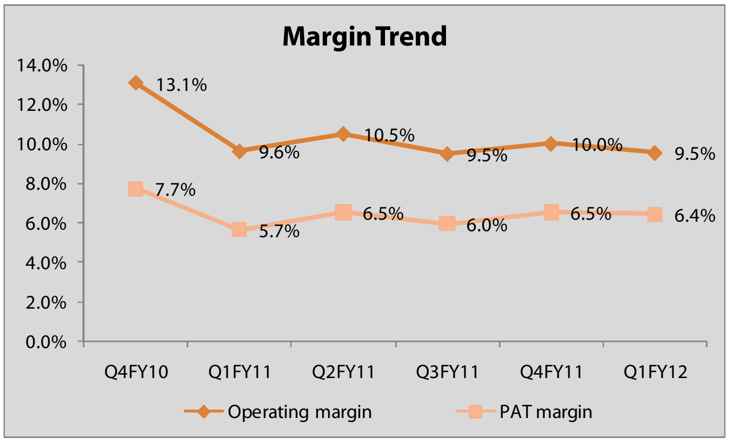
Realization got a fillip due to increased proportion of diesel units





RM cost is not expected to increase in Q2FY12





Margins were affected by RM cost and Yen appreciation