Prabhudas Lilladher

Maruti Suzuki India

Bumpier road ahead

March 17, 2010

Rating	**Reduce**
Price	Rs1,460
Target Price	Rs1,498
Implied Upside	2.6%
Sensex	17,383

(Prices as on March 15, 2010)

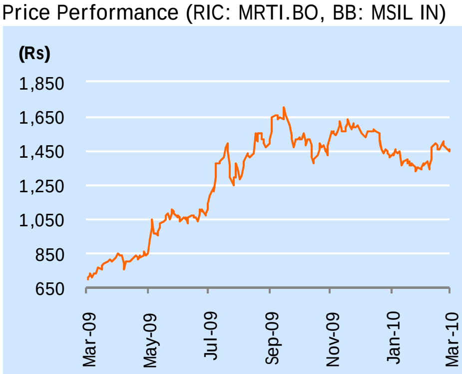
Trading Data	
Market Cap. (Rs bn)	421.9
Shares o/s (m)	289.0
Free Float	45.79%
3M Avg. Daily Vol ('000)	931.0
3M Avg. Daily Value (Rs m)	1,348.2

Major Shareholders	
Promoters	54.21%
Foreign	22.82%
Domestic Inst.	16.32%
Public & Others	6.65%

Stock Performance

(%)	1M	6M	12M
Absolute	7.6	(3.5)	108.9
Relative	0.5	(7.7)	14.5

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



Source: Bloomberg

Visit Update

- **Maruti Suzuki India (MSIL) likely to lose 460bps market share in A2 segment:** Global players like General Motors (GM), Ford, Volkswagen, Nissan and Toyota have set their eyes on the Indian compact car market (~70% of Indian passenger car market) with some exciting product line-up. We estimate MSIL to lose ~460bps market share in the A2 (compact car) segment over FY10–FY12E, given the competitive environment with new players entering the market.
- **Exports likely to be flat in FY11E**: Due to the incentive schemes being withdrawn in Europe, the company expects the non-European markets (which have started recovering) to compensate for the ~20-25% decline in sales in Europe, thereby, maintaining its export sales of 145,000 in FY11E, flat YoY.
- **Margins likely to decline, going forward:** MSIL has recently negotiated the raw material contracts at higher prices which is likely to dent the EBITDA margins. The company has given a 5-6% increase in the steel contracts to its vendors. At the same time, other expenses are likely to increase on account of up-gradation cost on existing models to meet the new emission norms. We estimate EBITDA margins at 12.5% for FY11E.
- **Capacity to be augmented to 1.5m units by January 2012**: Current production capacity is pegged at 1.2m, translating into a monthly production of 1lac units. The capacity is likely to be expanded to 1.5m by January 2012. The incremental 0.3m is likely to come up at the Manesar plant.
- **Outlook & Valuation:** We estimate a 13.7% YoY growth in domestic volumes and 11.8% YoY growth in overall volumes in FY11E. We believe that the competition is set to intensify in the coming few years for MSIL. At the same time, capacity constraints, coupled with pressure on EBITDA margins, is likely to lead to a muted 4.5% growth in FY11E PAT. The stock is currently trading at 15.7x FY11E EPS and 14.1x FY12E EPS, which in our view is fairly valued. Hence, we recommend paring exposure on every rise as the absolute upside seems limited from the current levels.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	207,322	297,912	340,215	386,986
Growth (%)	*15.6*	*43.7*	*14.2*	*13.7*
EBITDA (Rs m)	17,855	39,717	42,639	48,450
PAT (Rs m)	12,187	25,658	26,814	29,856
EPS (Rs)	42.2	88.8	92.8	103.3
Growth (%)	*(29.6)*	*110.5*	*4.5*	*11.3*
Net DPS (Rs)	3.5	5.0	6.0	6.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	*8.6*	*13.3*	*12.5*	*12.5*
RoE (%)	*13.7*	*24.3*	*20.7*	*19.1*
RoCE (%)	*12.8*	*22.7*	*19.5*	*18.2*
EV / sales (x)	2.0	1.4	1.2	1.1
EV / EBITDA (x)	22.9	10.6	9.9	8.7
PE (x)	34.6	16.4	15.7	14.1
P / BV (x)	4.1	3.4	2.8	2.4
Net dividend yield (%)	*0.2*	*0.3*	*0.4*	*0.4*

Source: Company Data; PL Research

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Indian small car market landscape set for a change

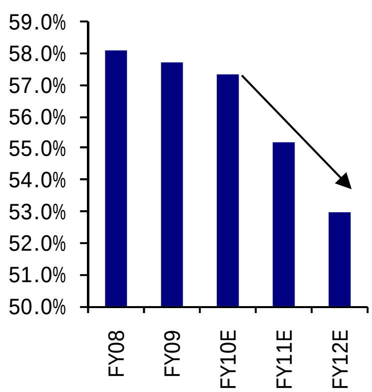
Competitive landscape over the next few years (Rs m)

Brand	Full Capacity (Nos.)	Location	Pricing (Rs)
MSIL 'A-2' segment overall	960,000	Gurgaon, Manesar	Across price points
MSIL '*Ritz*' & '*Swift*'	300,000	Manesar	4.5 – 6 lacs
GM '*Spark*' & '*Beat*'	140,000	Talegaon, Pune	3.5 lacs – 4.5 lacs
Ford '*Figo*'*	200,000	Chennai	3.66 – 4.48 lacs
Volkswagen '*Polo*'	110,000	Chakan, Pune	4.34 – 5.32 lacs
Nissan '*Micra*'*	120,000	Chennai	4 – 5 lacs

Source: PL Research

** Ford & Nissan could use 40-50% capacity for the export market*

MSIL's market share



Source: SIAM, PL Research

MSIL likely to lose 460bps market share in A2 segment: (Nos.)

Y/e March	FY08	FY09	FY10E	FY11E	FY12E
MSIL	499,280	511,396	640,427	725,000	810,000
MS (%)	*58.1*	*57.7*	*57.3*	*54.7*	*52.7*
Hyundai	182,775	212,001	275,000	300,000	330,000
MS (%)	*21.3*	*23.9*	*24.6*	*22.5*	*21.5*
Tata Motors	135,637	111,256	114,000	126,000	129,780
MS (%)	*15.8*	*12.6*	*10.2*	*9.5*	*8.4*
Ford	1,908	1,929	608	30,000	48,000
MS (%)	*0.2*	*0.2*	*0.1*	*2.3*	*3.1*
GM	33,583	39,715	58,000	70,000	78,400
MS (%)	*3.9*	*4.5*	*5.2*	*5.3*	*5.1*
VW	-	-	-	20,000	30,000
MS (%)				*1.5*	*2.0*
Nissan	-	-	-	20,000	40,000
MS (%)				*1.5*	*2.6*
Toyota	-	-	-	-	30,000
MS (%)					*2.0*

Source: SIAM, PL Research

- In the last few years, competition was not very intense, specifically in the A2 segment. Only Hyundai was a serious competition to the market leader, MSIL.
- Due to new and exciting product launches such as '*Swift*' and '*Ritz*', MSIL was able to maintain its market share at ~57% in the segment.
- Tata Motors came under severe pressure in terms of competition from Hyundai due to lack of competitive offering in the market.
- But come FY11E & FY12E, the picture is likely to change, with all the MNCs eyeing the A2 segment, which accounts for 70% of the Indian car market.
- Around eight players would be eyeing the pie of the Indian compact car market compared to just three players during the last few years.
- Some slew of exciting products at attractive pricing are likely to lure the Indian consumers, thereby, taking away some market share from MSIL in this segment.

Margins likely to be impacted, going forward

Input cost on the rise

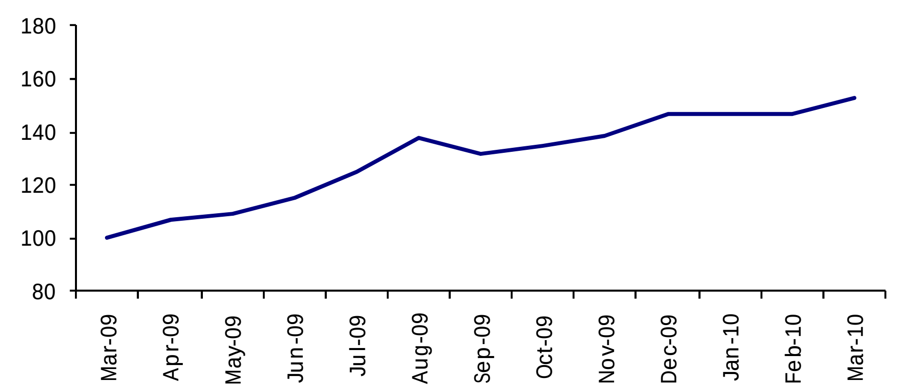
- We have made an attempt to create a raw material index for a four-wheeler ascribing different weights to different commodities.

Raw Material Price Index Weightages

Commodity	Weight
Steel HRC	45%
Aluminium	20%
Polymer / Plastics	20%
Rubber	10%
Copper	5%

Source: PL Research

Raw Material Price Index for a typical Four-Wheeler company



Source: Bloomberg, PL Research

- Raw material prices across the commodities have increased by 50% YoY. Our raw material index reflects a substantial increase in the cost of commodities. However, some of these costs are likely to be absorbed by the vendors.

- 75% of the components are fitted by suppliers/vendors in case of MSIL.

- Together with vendor imports, the imported steel accounts for 24-25% of net sales. The company has negotiated a 5-6% increase in the steel contracts to its vendors.

Other expenses likely to go up

- Competitive intensity could lead to higher advertising and promotional expenditure.

- At the same time, other expenses are likely to increase on account of up-gradation cost on existing models to meet the new emission norms.

- We estimate EBITDA margins at 12.5% for FY11E, a decline of 80bps YoY mainly on account of input cost pressure.

Scenario Analysis

Scenario Analysis

Particulars	Bear Case		Base Case		Bull Case	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Domestic Volumes (Nos.)	973,751	1,059,336	997,907	1,106,331	1,010,715	1,131,498
YoY gr. (%)	*11.0*	*8.8*	*13.7*	*10.9*	*15.2*	*12.0*
Export Volumes (Nos.)	130,000	140,000	145,000	160,000	150,000	165,000
Total Volumes (Nos.)	1,103,751	1,199,336	1,142,907	1,266,331	1,160,715	1,296,498
Operating income / vehicle (Rs)	293,721	301,037	297,675	305,596	299,376	309,410
YoY gr. (%)	*0.8*	*2.5*	*2.1*	*2.7*	*2.7*	*3.4*
Total operating income (Rs m)	324,194	361,045	340,215	386,986	347,491	401,150
EBITDA (Rs m)	37,258	40,511	42,639	48,450	45,869	52,817
EBITDA Margin (%)	*11.5*	*11.2*	*12.5*	*12.5*	*13.2*	*13.2*
PAT (Rs m)	23,102	24,378	26,814	29,856	29,043	32,869
EPS (Rs)	79.9	84.4	92.8	103.3	100.5	113.7
Current P/E Valuation (x)	18.1	17.1	15.6	14.0	14.4	12.7
Target Price (Rs)	**14.0x FY12E**	**1,181**	**14.5x FY12E**	**1,498**	**15.0x FY12E**	**1,706**

Source: PL Research

Outlook & Valuation

- We believe that the competition is set to intensify in the coming few years for MSIL. At the same time, capacity constraints, coupled with pressure on EBITDA margins, is likely to lead to a muted 4.5% growth in FY11E PAT.

- The stock is currently trading at 15.7x FY11E EPS and 14.1x FY12E EPS, which in our view is fairly valued. Hence, we recommend paring exposure on every rise as the absolute upside seems limited from the current levels.

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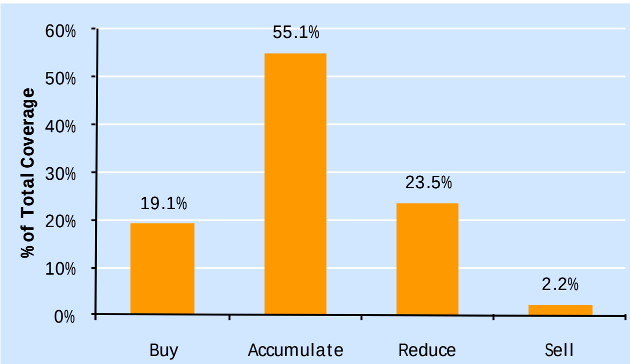
Rating Distribution of Research Coverage



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