

Maruti Suzuki Ltd – BUY

CMP Rs1,440, Target Rs1,750

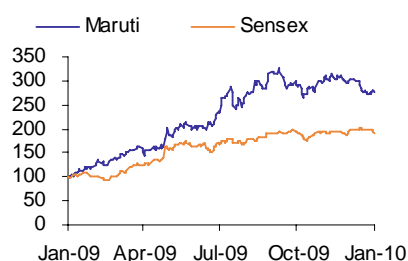
Sector: Automobiles	
Sensex:	16,860
CMP (Rs):	1,440
Target price (Rs):	1,750
Upside (%):	21.6
52 Week h/l (Rs):	1740 / 428
Market cap (Rscr) :	41,594
6m Avg vol ('000Nos):	1,042
No of o/s shares (mn):	289
FV (Rs):	5
Bloomberg code:	MSIL IB
Reuters code:	MRTI.BO
BSE code:	532500
NSE code:	MARUTI

Prices as on 23 Jan, 2010

Shareholding pattern	
September '09	(%)
Promoters	54.2
Institutions	39.1
Non promoter corp hold	4.7
Public & others	2.0

Performance rel. to sensx			
(%)	1m	3m	1yr
Maruti	(5.1)	(5.5)	83.4
M&M	9.5	21.9	236.7
Tata Motors	2.7	46.7	387.5
Ashok Ley	7.9	17.6	184.3

Share price trend



- ⊕ Net sales jump 62.2% yoy driven by 48.7% yoy volume growth, increased realizations owing to improving product mix towards higher priced products
- ⊕ OPM jumps 870bps yoy and 239bps qoq driven by benefits of operating leverage and lower raw material costs
- ⊕ Net profit grows more than 3 times compared to Q3 FY10 on account of improved operational performance
- ⊕ Company announced capacity expansion of 250,000 cars per annum at Manesar plant with an investment of Rs17bn
- ⊕ Maintain our BUY recommendation and target price of Rs1,750

Result table

(Rs m)	Q3 FY10	Q3 FY09	% yoy	Q2 FY10	% qoq
Volumes	258,026	173,494	48.7	246,188	4.8
Realization (Rs/unit)	284,226	260,104	9.3	286,349	(0.7)
Net sales	75,029	46,258	62.2	72,026	4.2
Material costs	(53,607)	(34,695)	54.5	(52,395)	2.3
Purchases	(2,294)	(1,922)	19.3	(2,160)	6.2
Personnel costs	(1,325)	(1,104)	20.0	(1,263)	4.9
Other overheads	(6,464)	(5,569)	16.1	(7,047)	(8.3)
Operating profit	11,339	2,968	282.1	9,161	23.8
OPM (%)	15.1	6.4	870bps	12.7	239bps
Depreciation	(2,028)	(1,775)	14.2	(1,970)	2.9
Interest	(84)	(45)	85.6	(60)	40.2
Other income	913	1,777	(48.6)	1,100	(17.1)
PBT	10,140	2,925	246.7	8,232	23.2
Tax	(3,265)	(789)	313.8	(2,471)	32.1
Effective tax rate (%)	32.2	27.0	522bps	30.0	218bps
Adjusted PAT	6,875	2,136	221.9	5,761	19.3
Adj. PAT margin (%)	9.2	4.6	455bps	8.0	116bps
Ann. EPS (Rs)	95.2	29.6	221.9	79.8	19.3

Source: Company, India Infoline Research

Net sales surge 62.2% on higher volumes and realizations

During Q3 FY10, Maruti Suzuki India Ltd (MSIL) reported net sales growth of 62.2% yoy driven by 48.7% yoy jump in volumes and 9.3% higher realizations. During the same period growth in overall passenger car sales in the industry was 44.8% yoy. Export volumes for MSIL witnessed a surge of 167% yoy on back of incentives offered by western Governments for purchase of fuel efficient cars. Domestic volumes also registered a robust growth of 37.8% yoy driven by improved credit availability and changing consumer sentiment. Realizations were higher on back of improving product mix towards higher priced diesel variants.

Total volume breakup market wise

	Volumes			Contribution (%)	
	Q3 FY10	Q3 FY09	yoy (%)	Q3 FY10	Q3 FY09
Domestic	218,910	158,860	37.8	84.8	91.6
Exports	39,116	14,634	167.3	15.2	8.4
Total	258,026	173,494	48.7	100.0	100.0

Source: Company, India Infoline Research

Domestic volume breakup – category wise

	Volumes			Contribution (%)	
	Q3 FY10	Q3 FY09	yoy (%)	Q3 FY10	Q3 FY09
A1	8,738	8,521	2.5	4.0	5.4
A2	159,678	115,241	38.6	72.9	72.5
A3	25,388	17,911	41.7	11.6	11.3
C	24,426	15,557	57.0	11.2	9.8
MUV	680	1,630	(58.3)	0.3	1.0
Domestic Total	218,910	158,860	37.8	100.0	100.0

Source: Company, India Infoline Research

Highest OPM recorded since Q2 FY08

During Q3 FY10, OPM for MSIL jumped 870bps yoy and 239bps qoq to 15.1%. Margins of this level were last experienced in Q2 FY08. Operating profit for Q3 FY10 multiplied nearly 4 times on yoy basis. The growth was driven by 355bps fall in raw material costs as a percentage of sales. Benefits of operating leverage resulted in 342bps yoy and 62bps yoy reduction in overheads and staff costs respectively. The growth in OPM was marginally offset by lower other income, higher depreciation and higher interest expense. Effective tax rate for the company was higher by 522bps yoy.

Cost analysis

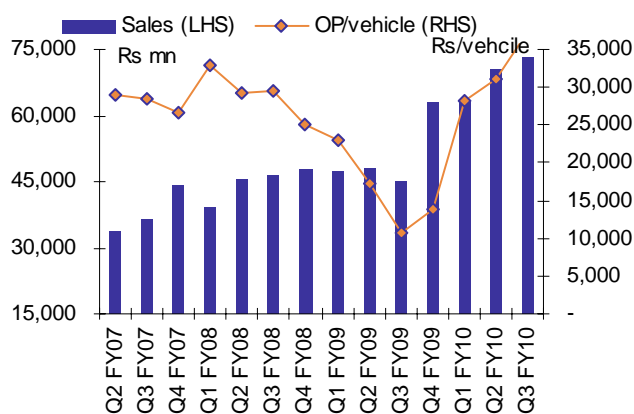
	Q3 FY10	Q3 FY09	bps yoy	Q2 FY10	bps qoq
Material costs	71.4	75.0	(355)	72.7	(130)
Purchases	3.1	4.2	(110)	3.0	6
Personnel Costs	1.8	2.4	(62)	1.8	1
Other overheads	8.6	12.0	(342)	9.8	(117)
Total costs	84.9	93.6	(870)	87.3	(239)

Source: Company, India Infoline Research

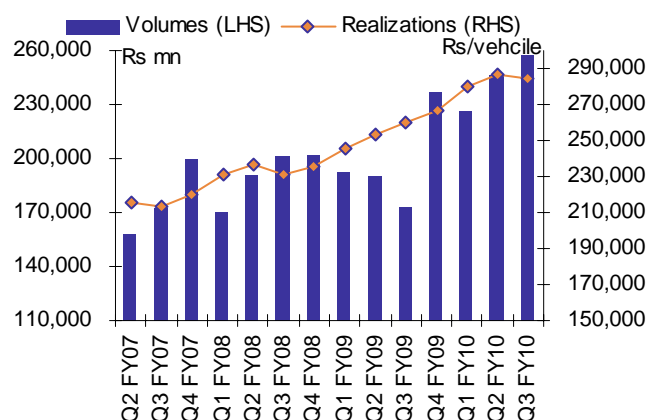
Capacity expansion under way

The company has announced the capacity expansion plans for Manesar plant. The expansion will lead to additional capacity of 250,000 cars per annum, production will commence by April 2012. Investment for the expansion will be Rs17bn. Currently MSIL has a capability to manufacturer a million units at its existing facilities, 0.7mn at Gurgaon and 0.3mn at Manesar.

Trend in volumes and realizations



Trend in sales and operating profit/vehicle



Source: India Infoline Research

Upgrading FY10 estimates and retain BUY rating

Results for Q3 FY10 were ahead of our estimates on back of higher than expected OPM. We raise our earning estimate for FY10 from Rs79.1 to Rs83.5. We believe that the company should be able to sustain its OPM at above 13% considering the pricing power and change in Swift petrol engine, which will result in lower excise duty from current 20% to 8%. We value the stock at 16.5x FY12E EPS of Rs105.4 yielding a target price of Rs1750. Maintain BUY.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	209,129	286,202	327,185	367,130
yoy growth (%)	17.1	36.9	14.3	12.2
Operating profit	18,701	37,740	43,434	47,595
OPM (%)	8.9	13.2	13.3	13.0
Pre-exceptional PAT	12,191	24,125	28,366	30,455
Reported PAT	12,191	24,125	28,366	30,455
yoy growth (%)	(29.6)	97.9	17.6	7.4
EPS (Rs)	42.2	83.5	98.2	105.4
P/E (x)	34.1	17.2	14.7	13.7
Price/Book (x)	4.5	3.6	2.9	2.4
EV/EBITDA (x)	21.6	10.5	9.1	8.2
Debt/Equity (x)	0.1	0.0	0.0	0.0
RoE (%)	13.7	23.1	22.0	19.5
RoCE (%)	17.5	31.0	28.8	25.7

Source: Company, India Infoline Research