

Maruti Suzuki

BSE SENSEX 18,396
S&P CNX 5,512

Rs1,234

Buy

Bloomberg MSIL IN
Diluted Equity Shares (m) 289.0
52-Week Range 1,600/1,171
1,6,12 Rel.Perf.(%) -4/1/-24
M.Cap. (Rs b) 356.6
M.Cap. (US\$ b) 7.8

YEAR	NET SALES	PAT	Cons. EP	EPS	Cons. P/E	P/CE	P/BV	EV/	ROE	ROCE
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(X)	EBITDA	(%)	(%)
3/10A	296,231	25,062	90.8	113.8	13.6	10.7	3.0	7.4	21.1	28.4
3/11E	370,071	23,208	88.2	-2.9	14.0	10.8	2.6	7.8	16.4	22.2
3/12E	440,451	27,972	104.6	18.7	11.8	8.9	2.2	6.2	17.0	23.0
3/13E	512,790	33,091	124.4	18.9	9.9	7.5	1.8	4.8	17.0	23.2

Maruti's 3QFY11 performance was below our expectations, with EBITDA margin of 9.5% (v/s our estimate of 10.3%), impacted by higher discounts, and higher raw material (RM) and staff costs. Adjusting for 55bp of full-year provisioning for increments, EBITDA margin would have been 10%.

Key highlights

- Volumes grew 28% YoY (5.4% QoQ) to 330,687 units. Realizations declined 1.5% QoQ (~1.3% YoY), impacted by higher discounts (~60bp QoQ impact) and lower export realizations (~1.2% YoY impact).
- Net revenues grew 26% YoY to Rs94.9b (v/s our estimate of Rs95.4b). EBITDA margin declined by 100bp QoQ (~560bp YoY) to 9.5% (v/s our estimate of 10.3%), impacted by 100bp QoQ (~390bp YoY) increase in RM cost (due to higher discounts and forex impact on vendor imports) and 70bp QoQ (~60bp YoY) increase in staff cost (with ~55bp QoQ impact of 9MFY11 provisioning for increments in 3QFY11). Reported PAT at Rs5.65b (v/s our estimate of Rs6.15b) declined by 18% YoY (~5.5% QoQ).
- Maruti is preparing for 15-20% volume growth for FY12, with further debottlenecking taking total capacity to 1.4m units by April 2011 and likely commissioning of phase-I of 0.25m capacity at Manesar by 2HFY12. It is witnessing cost inflation on RM, which would be only partly offset by 0.8-1% average price increase taken in January 2011.

Valuation and view: We are downgrading our consolidated EPS estimates by 3% to Rs88.2 for FY11, by ~2.6% to Rs104.6 for FY12 and by ~2.6% to Rs124.4 for FY13. The stock trades at 11.8x FY12E and 9.9x FY13E consolidated EPS, and 8.9x FY12E and 7.5x FY13E CEPS. Maintain **Buy** with price target of Rs1,655 (~10x FY13E CEPS).

QUARTERLY PERFORMANCE

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	226,729	246,188	258,026	287,422	283,324	313,654	330,687	344,632	1,018,365	1,272,297
Change (%)	17.7	29.9	48.7	21.5	25.0	27.4	28.2	19.9	28.6	24.9
Realizations (Rs/car)	279,640	286,349	284,226	286,508	284,151	284,935	280,529	286,469	284,363	284,031
Change (%)	13.8	12.9	8.0	7.5	1.6	-0.5	-1.3	0.0	10.4	-0.1
Net Op. Revenues	64,930	72,038	75,029	84,246	83,062	91,473	94,945	100,592	296,230	370,071
Change (%)	33.6	44.3	60.3	31.0	27.9	27.0	26.5	19.4	41.7	24.9
RM Cost (% of Sales)	76.3	75.7	74.5	76.1	77.2	77.4	78.4	77.8	75.7	77.7
Staff Cost (% of Sales)	2.1	1.8	1.8	1.8	1.9	1.7	2.4	1.9	1.8	2.0
Other exp. (% of Sales)	9.4	9.8	8.6	8.9	10.6	10.4	9.6	10.3	9.1	10.2
EBITDA	7,932	9,161	11,339	11,111	8,577	9,603	9,018	10,083	39,543	37,280
As % of Sales	12.2	12.7	15.1	13.2	10.3	10.5	9.5	10.0	13.3	10.1
Change (%)	39.4	77.6	222.3	147.3	8.1	4.8	-20.5	-9.3	109.5	-5.7
Non-Operating Income	2,165	1,100	913	790	1,002	1,340	1,283	1,438	4,968	5,063
Extraordinary Expense	0	0	0	0	652	0	0	0	0	652
Interest	63	60	84	129	80	97	4	12	335	193
Depreciation	1,961	2,031	2,028	2,230	2,417	2,382	2,369	2,419	8,250	9,587
PBT	8,073	8,171	10,140	9,542	6,430	8,464	7,928	9,089	35,925	31,911
Tax	2,238	2,471	3,265	2,976	1,777	2,481	2,276	2,593	10,949	9,127
Effective Tax Rate (%)	27.7	30.2	32.2	31.2	27.6	29.3	28.7	28.5	30.5	28.6
PAT	5,835	5,700	6,875	6,566	4,654	5,982	5,652	6,497	24,976	22,785
Adjusted PAT	5,835	5,700	6,875	6,566	5,125	5,982	5,652	6,497	24,976	23,250
Change (%)	25.3	92.5	221.6	170.0	-12.2	5.0	-17.8	-1.0	105.9	-6.9

E:MOSL Estimates

Robust volumes boost revenues despite drop in realizations; gains lost market share driven by enhanced capacity

Net revenues grew 3.8% QoQ (~26% YoY) to Rs94.9b (v/s our estimate of Rs95.4b), driven by 5.4% QoQ (~28.2% YoY) growth in volumes. Volume growth was driven by 7.8% QoQ (~3.6% YoY) growth in domestic volumes, whereas exports declined 12.8% QoQ (~20.3% YoY). While European exports were under pressure, this was offset by growth in non-EU exports (~70% of exports). Higher discounts (at Rs10,700/unit v/s Rs8,500/unit in 2QFY11 and Rs9,970/unit in 3QFY10) and lower export realizations (due to EUR depreciation and increasing non-EU share) resulted in 1.5% QoQ (~1.3% YoY) decline in realizations.

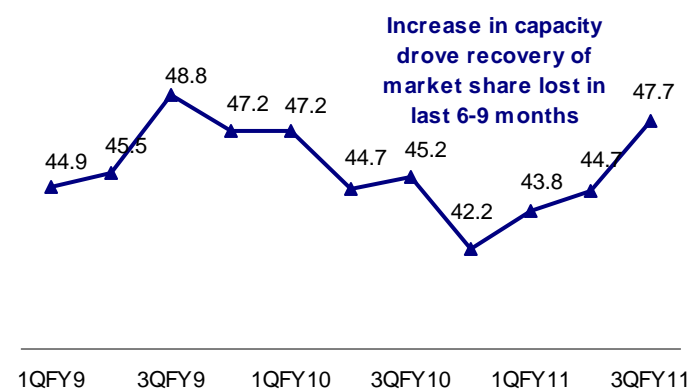
Product mix has stabilized with higher share of A2 & A3 segment (to 84.5% v/s 86.9% in 2QFY10 and 84.8% in 2QFY11). The share of the MPV segment increased (to 13.2% v/s 9.5% in 2QFY10 and 13.3% in 2QFY11) led by robust demand for Eeco. With de-bottlenecking of capacity from October 2010, it has recovered lost market share. In 3QFY11, it had 47.7% share of the domestic PV market.

Trend in volumes (units)

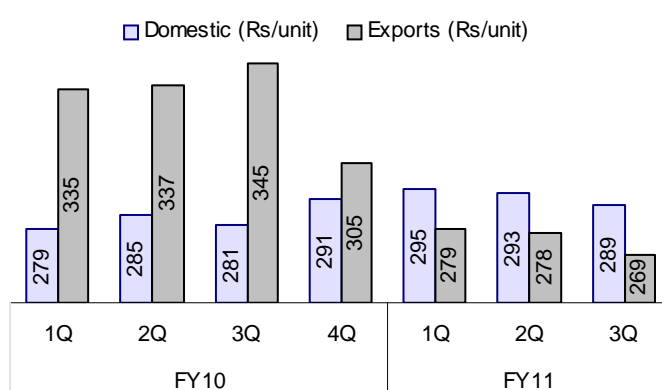
	3QFY11	3QFY10	YoY (%)	2QFY11	QoQ (%)
A1	6,869	8,738	-21.4	5,207	31.9
% of total	2.1	3.4		1.7	
MPV	43,639	24,426	78.7	41,596	4.9
% of total	13.2	9.5		13.3	
A2	216,057	159,678	35.3	198,953	8.6
% of total	65.3	61.9		63.4	
A3	32,098	25,388	26.4	31,362	2.3
% of total	9.7	9.8		10.0	
UV	891	680	31.0	818	8.9
% of total	0.3	0.3		0.3	
Exports	31,160	39,116	-20.3	35,718	-12.8
% of total	9.4	15.2		11.4	
Total Sales	330,714	258,026	28.2	313,654	5.4
Total PV (Incl Exports) MS (%)	44.7	42.8	190	43.0	180
Total Dom. Cars MS (%)	51.7	50.8	100	48.2	350
Total Dom. Car (ex-Nano) MS (%)	52.7	52.2	60	50.5	220

Source: Company/SIAM/MOSL

Trend in domestic PV market share (%)

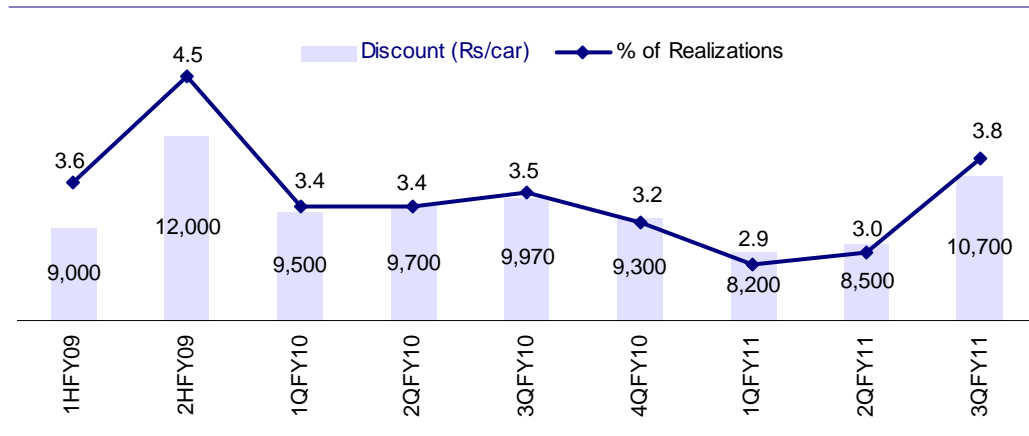


Trend in realizations (Rs '000)



Source: Company/SIAM/MOSL

Trend in discounts



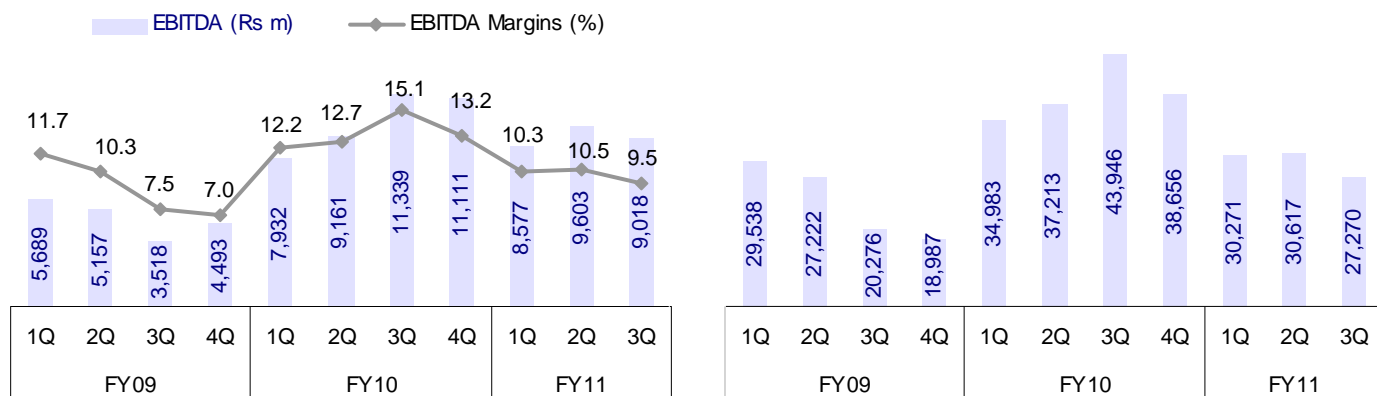
Source: Company/ MOSL

Lower realizations, higher RM and staff costs hurt profitability

EBITDA margin declined by 100bp QoQ (~560bp YoY) to 9.5% (v/s our estimate of 10.3%), impacted by 100bp QoQ (~390bp YoY) increase in RM cost and 70bp QoQ (~60bp YoY) increase in staff cost. RM cost increase was due to higher discounts (~60bp QoQ impact) and forex impact on vendor imports (~25bp QoQ impact), rather than any meaningful increase in commodity cost. The management indicated that it is still negotiating steel and other commodity prices, which would impact 4QFY11 numbers. Also, higher staff cost was on account of 9MFY11 provisioning of increments being accounted for in 3QFY11 (~55bp impact). Other expenses declined by 80bp QoQ (~up 100bp YoY), as royalty declined by ~30bp QoQ (but increased 150bp YoY) due to lower export contribution and change in export product mix (lower A-Star sales) and reduction in selling & distribution expenses (due to reduction in lead distance in export markets). EBITDA grew 6% QoQ (~20.5% YoY) to Rs9b (v/s our estimate of Rs9.8b) translating into PAT decline of 5.5% QoQ (~17.8% YoY) to Rs5.65b (v/s our estimate of Rs6.15b).

Trend in EBITDA

Trend in EBITDA (Rs/Unit)

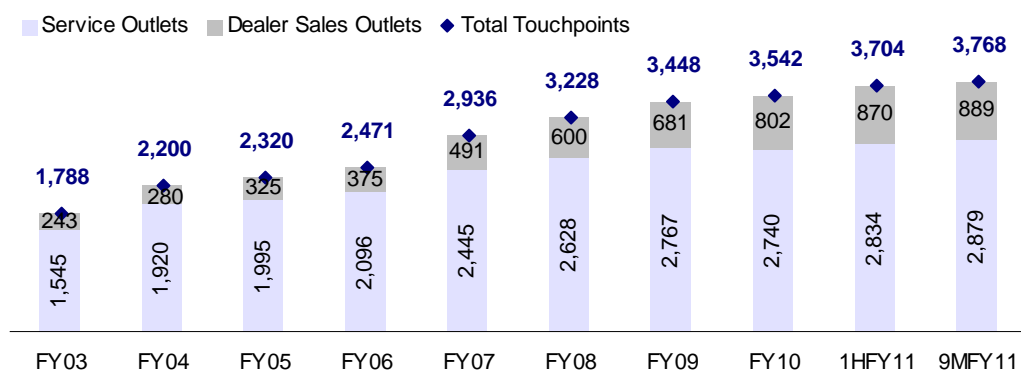


Source: Company/SIAM/MOSL

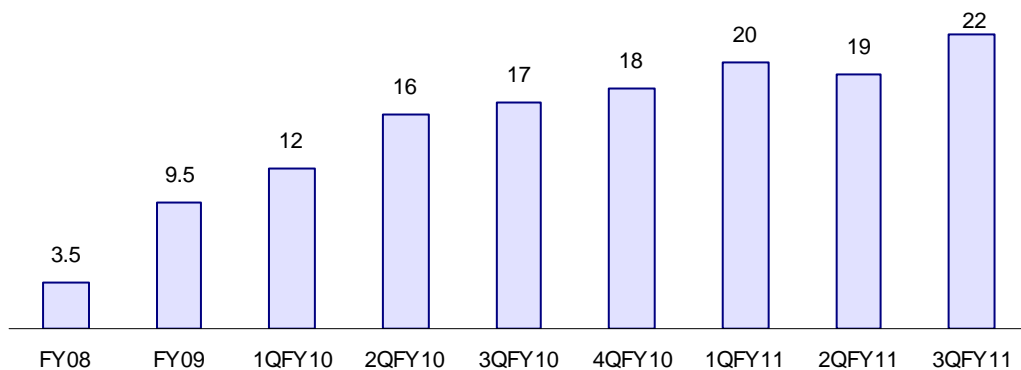
Demand remains robust; enhancing manufacturing and distribution capacity

The management indicated that retail level demand remains very strong, despite increase in petrol prices and interest rates. As a result, discounts are likely to normalize in 4QY11. Maruti is preparing for 15-20% industry growth by de-bottlenecking its capacity to 1.4m units (from 1.3m) from April 2011 and preponing phase-I of brownfield expansion at Manesar of 0.25m units to 2HFY12. Also, it is further strengthening its distribution network with the objective of deepening its reach. In 9MFY11, it has added 87 sales outlets in 76 new cities (to 889 outlets covering 631 cities) and added 139 service workshops in 38 new cities (to 2,879 workshops covering 1,373 cities). This is driving increasing share of rural markets, which now stands at ~22% of domestic volumes.

Maruti is strengthening its distribution network...



...driving increasing contribution from rural markets (% of domestic volumes)



Source: Company/ MOSL

Other highlights of results / conference call with management

- Financing (% of volumes) has reduced to 66% in 3QFY11 from 70% in 2QFY11 (65% in 3QFY10) and is a reflection of increasing share of rural markets.
- The company indicated that the share of first-time buyers has gradually reduced to 45% currently as against 52% four years ago.
- Their recently-launched CNG variants are getting encouraging response, which is reflected in ~20% penetration in markets with CNG availability.
- Despite increasing difference between diesel and petrol prices, the company is not planning to offer diesel options beyond the existing models (Ritz, Swift and DZire).
- The price increase of 0.8-1% in January 2011 only partly covers cost inflation. While it would focus on cost savings to offset cost inflation, it would take price increases if cost inflation is beyond its control.

- In exports, it is focusing on non-EU markets to offset decline in EU exports. The share of non-EU in exports has increased to 70% in 3QFY11 as against 60% in 2QFY11 and 20% in 3QFY10.
- It has hedged its EUR exposure till 1HFY12. However, it has not hedged its JPY and USD coverage. While it expects JPY to depreciate, USD is partly naturally hedged against imports.

Valuation and view

We are downgrading FY11 consol EPS by 3% to Rs88.2 and FY12 & FY13 by ~2.6% to Rs104.6 and Rs124.4 respectively. We model in volume growth of 16.6% in FY12 and 15% in FY13 (unchanged) and EBITDA margins of 10.2% and 10.7% respectively (reduced by 50bp).

Maruti has underperformed the Sensex by 24% over the last 12 months, as it lost market share and margins were under pressure on account of RM cost push and adverse forex movement. With easing of capacity constraint, we expect Maruti to recover and defend its market share despite competitive pressure. We estimate gradual improvement in EBITDA margin from 10.1% in FY11 to 10.2% in FY12 and 10.7% in FY13, driven by higher operating leverage, reduction in imports and stability in forex. However, adverse forex movement remains a concern, especially for FY12, as majority of exposure remains unhedged. The stock trades at 11.8x FY12E and 9.9x FY13E consolidated EPS, and 8.9x FY12E and 7.5x FY13E CEPS. Maintain **Buy** with price target of Rs1,655 (~10x FY13E CEPS).

Maruti Suzuki: an investment profile

Company description

Maruti Suzuki is the largest passenger vehicle manufacturer in India, with 1.2m units. It dominates the cars segment with ~50% market share (ex-Nano). It is also emerging as the global export hub of small cars for Suzuki, with world strategic model A-Star exclusively produced in India.

Key investment arguments

- Strong volume momentum to continue in FY11, driven by estimated 30% growth in domestic volumes.
- Volume growth in domestic market driven by focus on tier-II cities and rural market.
- Improving product mix with increasing share of A2 & A3 segment, driven by newer products.

Key investments risks

- Increasing competition in the key A2 segment.
- Adverse forex movement may impact margins negatively.
- Higher royalty and strengthening of commodity prices could impact margins.

Recent developments

- Increased selling prices of cars by 0.81-1% from January 2011 across all models.

Valuation and view

- The stock trades at 11.8x FY12E and 9.9x FY13E consolidated EPS, and 8.9x FY12E and 7.5x FY13E CEPS.
- Maintain **Buy** with price target of Rs1,655 (~10x FY13E CEPS).

Sector view

- Passenger vehicle segment is expected to continue its growth momentum.
- With low car penetration levels in India, the upside potential for growth is tremendous.
- However, increasing competition poses threat in long term.

Comparative valuations

		Maruti	M&M	Tata Motors
P/E (x)	FY11E	14.0	16.1	9.0
	FY12E	11.8	14.4	7.8
EPS Gr (%)	FY11E	-2.9	25.3	423.1
	FY12E	18.7	11.6	15.2
RoE (%)	FY11E	16.4	24.0	45.0
	FY12E	17.0	22.4	36.0
EV/EBITDA (x)	FY11E	7.8	10.1	5.2
	FY12E	6.2	8.4	4.5

Shareholding pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	54.2	54.2	54.2
Domestic Inst	17.0	17.0	16.3
Foreign	21.1	20.2	22.9
Others	7.7	8.6	6.6

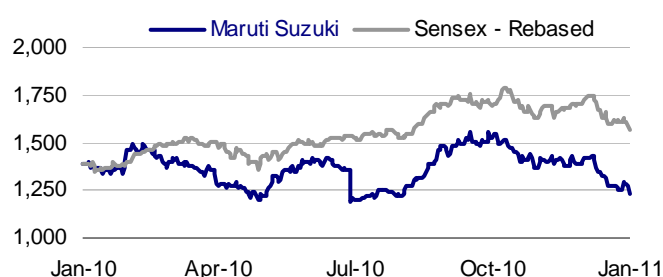
EPS: MOSL Standalone forecast v/s consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	80.3	82.9	-3.2
FY12	96.8	97.1	-0.3

Target price and recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
1,234	1,655	34.1	Buy

Stock performance (1 year)



Financials and Valuation

INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Gross Sales	231,401	318,073	403,673	482,103	563,156	
Less: Excise	27,269	28,488	42,302	51,032	59,788	
Excise (%)	0.12	0.09	0.10	0.11	0.11	
Net Sales	204,132	289,585	361,371	431,071	503,368	
Change (%)	14.3	41.9	24.8	19.3	16.8	
Operating Other Income	4,942	6,646	8,699	9,380	9,422	
Total Income	209,074	296,231	370,071	440,451	512,790	
Total Cost	188,586	256,849	332,790	395,504	457,956	
EBITDA	20,489	39,382	37,280	44,947	54,834	
% of Net Sales	9.8	13.3	10.1	10.2	10.7	
Depreciation	7,065	8,250	9,810	12,099	14,739	
EBIT	13,424	31,132	27,470	32,848	40,095	
Def Revenue Exp. / Others	-223	-296	-223	-223	-223	
Interest & Finance Charges	510	335	193	174	162	
Other Income	5,386	4,964	5,063	6,500	6,450	
Non-recurring Expense	1,765	132	652	0	0	
PBT	16,758	35,925	31,911	39,397	46,606	
Tax	4,571	10,949	9,127	11,425	13,516	
Effective Rate (%)	27.3	30.5	28.6	29.0	29.0	
PAT	12,187	24,976	22,785	27,972	33,091	
Change (%)	-29.6	104.9	-8.8	22.8	18.3	
Adj. PAT	13,334	25,062	23,208	27,972	33,091	
Change (%)	-22.0	87.9	-7.4	20.5	18.3	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Share Capital	1,445	1,445	1,445	1,445	1,445	
Reserves	92,004	116,906	137,412	162,727	192,674	
Net Worth	93,449	118,351	138,857	164,172	194,119	
Loans	6,989	8,214	7,214	6,714	6,214	
Deferred Tax Liability	1,551	1,370	1,370	1,370	1,370	
Capital Employed	101,989	127,935	147,441	172,256	201,703	
Gross Fixed Assets	87,206	104,067	120,943	150,943	185,943	
Less: Depreciation	46,498	53,820	63,630	75,729	90,468	
Net Fixed Assets	40,708	50,247	57,313	75,214	95,475	
Capital WIP	8,613	3,876	15,000	15,000	10,000	
Investments	31,733	71,766	67,766	67,766	67,766	
Curr.Assets, Loans	55,100	37,724	51,416	65,586	87,273	
Inventory	9,023	12,088	16,222	19,307	22,478	
Sundry Debtors	9,378	8,099	12,167	14,481	16,859	
Cash & Bank Balances	19,390	982	6,472	15,243	31,381	
Loans & Advances	16,328	15,707	15,707	15,707	15,707	
Others	981	848	848	848	848	
Current Liab. & Prov.	34,165	35,678	44,053	51,310	58,811	
Sundry Creditors	30,358	29,394	36,619	42,403	48,349	
Provisions	3,807	6,284	7,434	8,906	10,462	
Net Current Assets	20,935	2,046	7,363	14,276	28,462	
Appl. of Funds	101,989	127,935	147,441	172,256	201,703	

E: MOSL Estimates

RATIOS						
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Basic (Rs)						
Adjusted EPS	46.1	86.7	80.3	96.8	114.5	
EPS Growth (%)	-22.0	87.9	(7.4)	20.5	18.3	
Consol EPS	42.5	90.8	88.2	104.6	124.4	
Cash EPS	70.6	115.3	114.3	138.7	165.5	
Book Value per Share	323.4	409.5	480.5	568.1	671.7	
DPS	3.5	6.0	6.7	7.9	9.3	
Payout (Incl. Div. Tax) %	9.7	8.1	10.0	8.1	8.1	
Valuation (x)						
Consol. P/E	29.0	13.6	14.0	11.8	9.9	
Cash P/E	17.5	10.7	10.8	8.9	7.5	
EV/EBITDA	15.2	7.4	7.8	6.2	4.8	
EV/Sales	1.5	1.0	0.8	0.7	0.5	
Price to Book Value	3.8	3.0	2.6	2.2	1.8	
Dividend Yield (%)	0.3	0.5	0.5	0.6	0.8	
Profitability Ratios (%)						
RoE	13.0	21.1	16.4	17.0	17.0	
RoCE	18.7	28.4	22.2	23.0	23.2	
Leverage Ratio						
Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
OP/(Loss) before Tax	10,391	31,020	27,693	33,071	40,318	
Int./Dividends Received	3,469	4,103	5,063	6,500	6,450	
Depreciation & Amort.	7,065	8,250	9,810	12,099	14,739	
Direct Taxes Paid	-4,524	-10,279	-9,127	-11,425	-13,516	
(Inc)/Dec in Wkg. Capital	-999	-117	173	1,858	1,952	
CF from Oper. Activity	15,402	32,977	33,613	42,103	49,943	
Extra-ordinary Items	0	0	-652	0	0	
Other Items	0	0	0	0	0	
CF after EO Items	15,402	32,977	32,961	42,103	49,943	
(Inc)/Dec in FA+CWIP	-16,136	-13,149	-28,000	-30,000	-30,000	
(Pur)/Sale of Invest.	22,181	-38,787	4,000	0	0	
CF from Inv. Activity	6,045	-51,936	-24,000	-30,000	-30,000	
Change in Network	0	0	-331	-386	-457	
Inc/(Dec) in Debt	-3,339	1,881	-1,000	-500	-500	
Interest Paid	-579	-319	-193	-174	-162	
Dividends Paid	-1,444	-1,011	-1,947	-2,271	-2,687	
CF from Fin. Activity	-5,362	551	-3,471	-3,331	-3,805	
Inc/(Dec) in Cash	16,085	-18,408	5,490	8,771	16,138	
Add: Beginning Balance	3,305	19,390	982	6,472	15,243	
Closing Balance	19,390	982	6,472	15,243	31,381	



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Maruti Suzuki

- | | |
|---|----|
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| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.