

Maruti Suzuki India (MARUTI)

Rs 1362

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 1689 to Rs 1614
EPS (FY11E) Changed from Rs 94.1 to Rs 94.0
EPS (FY12E) Changed from Rs 104.7 to Rs 101.8
RATING..... Unchanged

Below expectations...

Maruti Suzuki India (MSIL) reported Q4FY10 results disappointing Street as well as our expectation for the quarter as well as full year. MSIL reported 30.9% YoY and 12.3% QoQ growth in net sales for Q4FY10 to Rs 8,424.6 crore while for FY10 net sales surged 42.2%. Rise in the raw material to sales ratio on account of rising raw material expenses, as well as shift in emission norms for all its models (except M800 and Gypsy) has made a dent on its EBITDA margin. The margin fell from 15.1% in Q3FY10 to 13.2%. Lower other income, down 17.4%, and rise in depreciation provision by 16.8% along with EBITDA margin erosion restricted bottomline growth. The net profit grew 170% YoY to Rs 656.6 crore, doubling from Q3FY10 levels.

MSIL has guided for ~15% volume growth and capital expenditure of Rs 2,800 crore and Rs 3,000 crore for FY10 and FY11, respectively. The current capacity of one million will be augmented to 1.25 million by Q4FY12 with new capacity of 2.5 lakh units per annum coming up at Manesar. MSIL is also investing in a research and development (R&D) facility at Rohtak for which land has been purchased. The current capacity is a constraint for rise in demand. However, with an improvement in efficiency and de-bottlenecking, the company guided that it can increase production by ~ 75,000–90,000 annually. We are maintaining our volume estimates. However, taking signals from a rise in raw material costs, we are trimming down our EBITDA margin estimates. With the rise in depreciation provisions on account of higher capex, we are downgrading our net profit estimates. We have revised our net profit estimates to Rs 2,715.6 crore and Rs 2,941 crore for FY11 and FY12, respectively.

Valuation

Volume expansion and a tilt towards premium models will mitigate the impact of falling EBITDA margins, to some extent. We are revising our target price downward to Rs 1,614 from Rs 1,689 per share to reflect the downgrade in net profit estimates. With the recent underperformance of the stock, we however reiterate our **BUY** rating. At the CMP of Rs 1,362, the stock is available at 14.5x and 13.4x FY11E and FY12E EPS, respectively, and 10.3x and 9.4x EV/EBITDA for the same period.

Exhibit 1: Valuation Metrics

(Rs Crore)	Q4FY10	Q4FY09	Q3FY10	YoYchg	QoQchg	FY10
Net Sales	8424.6	6432.9	7502.8	31.0	12.3	29623.0
EBITDA Margin (%)	13.2%	7.0%	15.1%			13.3%
Depreciation	223.0	197.1	202.8	13.1	10.0	825.0
Interest	12.9	8.9	8.4	44.9	53.5	33.5
Other Income	79.0	105.4	91.3	-25.1	-13.5	496.8
Reported PAT	656.6	243.1	687.5	170.0	-4.5	2497.6
EPS (Rs)	22.7	8.4	23.8	170.0	-4.5	86.4

Source: Company, ICICIdirect.com Research

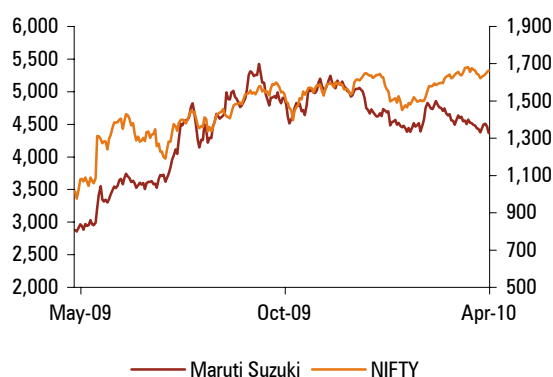
Rating matrix	
Rating	: Buy
Target	: Rs 1614
Target Period	: 12 months
Potential Upside	: 19%

Trailing 4 quarters growth % (YoY)				
	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Net Sales	6,493.0	7,202.6	7,502.8	8,424.6
EBITDA	793.2	916.1	1,133.9	1,111.1
Net Profit	583.5	570.0	687.5	656.6

Valuation summary				
	FY09	FY10E	FY11E	FY12E
PE (x)	33.8	15.8	14.5	13.4
Target PE (x)	40.1	18.7	17.2	15.9
EV to EBITDA (x)	23.3	9.5	10.3	9.4
Price to book (x)	5.0	4.0	3.3	2.7
RoNW (%)	13.3	23.1	21.0	18.8
RoCE (%)	18.5	33.3	28.9	26.4

Stock data	
Market Capitalisation	Rs39,356 crore
Debt (FY08)	Rs 698.9 crore
Cash (FY08)	Rs 1,939 crore
EV	Rs 38,115.9 crore
52 week H/L	Rs 1740 / 764
Equity capital	Rs 144.5 crore
Face value	Rs 5
MF Holding (%)	17.7%
FII Holding (%)	21.1%

Price movement (Stock vs. Nifty)

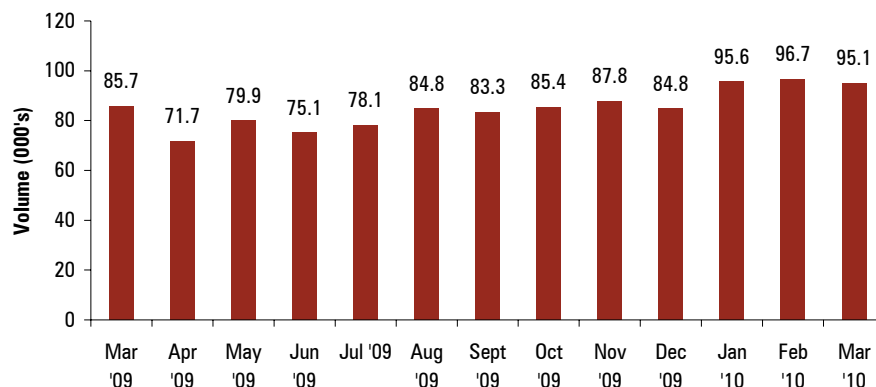


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Performance highlights

Exhibit 2: Volume trend for FY10



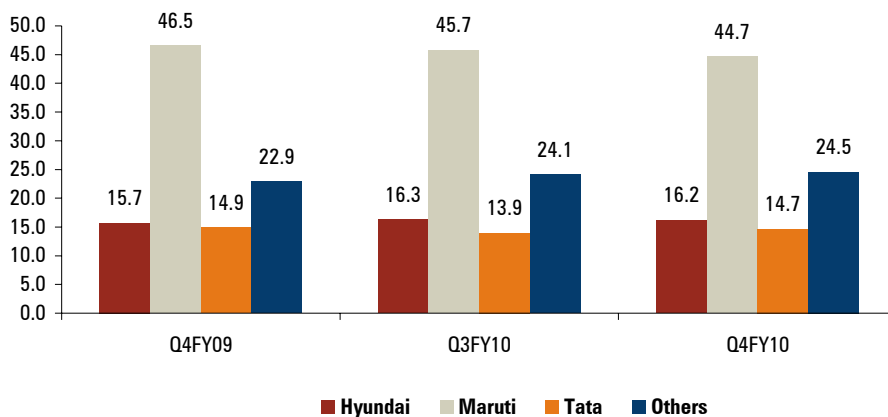
Source: Company, ICICIdirect.com Research

Exhibit 3: Quarterly performance ('000 units)

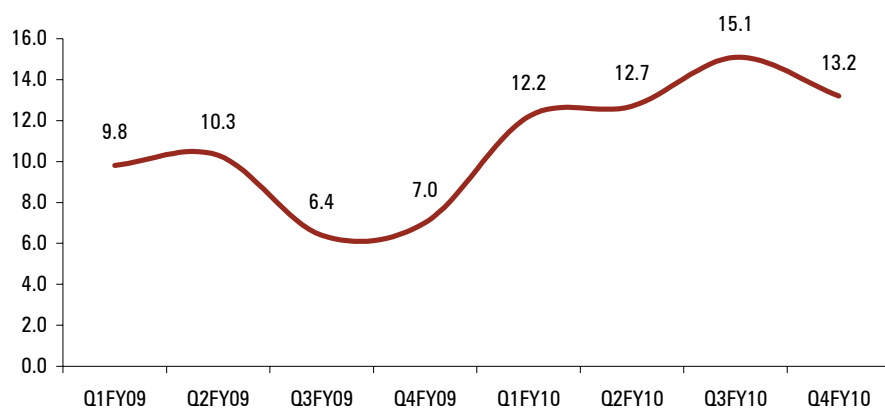
	Q4FY10	Q4FY09	YoY (%)	Q3FY10	QoQ (%)	FY10	FY09	Gr (%)
Volume ('000's)	287	237	21.5	258	11.4	1018.4	792.167	28.6

Source: SIAM, ICICIdirect.com Research

Exhibit 4: Market share movement (%)



Source: SIAM, ICICIdirect.com Research

Exhibit 5: EBITDA margin movement (%)

Source: Company, ICICIdirect.com Research

Key highlights from conference call

- Sales to government employees increased to 13% in FY10 from 7.5% in FY09 while the rural sales contribution increased to 18% from 9%. For the current year, however, the company has guided that the focus will be more on the urban market
- Sales outlets increased to 802 in FY10 from 681 in FY09
- The company has shifted all its models (except M800 and Gypsy) to BS-IV norms engines. Rationalisation of platform would further help to increase output and bring efficiency in costs
- Competitive pressures with new launches have been the key concern for maintaining market share. However, the company believes the same can be regained with new launches at attractive prices

Financial revision

Exhibit 6: Revised financial estimates

(Rs Crore)	Old FY11E	New FY11E	%chg	Old FY12E	New FY12E	%chg
Net Sales	34957.7	34957.7	0.0	37641.4	37714.7	0.2
EBITDA	4510.5	4364.8	-3.2	4994.8	4877.1	-2.4
EBITDA margin (%)	12.9	12.5	-3.2	13.3	12.9	-2.5
Net profit	2719.0	2715.6	-0.1	3024.5	2941.0	-2.8
EPS (Rs)	94.1	94.0	-0.1	104.7	101.8	-2.8

Source: ICICIdirect.com Research

Exhibit 7: ICICIdirect.com Research Universe

Tata Motors					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	TELCO	CMP	809	FY09	25,354.1	19.5	41.5	53.5	10.0	7.1
		Target	847	FY10E	32,851.1	59.3	13.7	16.5	22.1	12.8
Mcap (Rs cr)	41,594	% Upside	4.6	FY11E	35,965.9	58.0	13.9	14.0	16.6	11.7
Maruti Suzuki					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	MARUTI	CMP	1362	FY09	20,775.6	-25.7	33.8	19.5	13.3	18.5
		Target	1614	FY10E	31,684.5	108.6	16.2	9.5	23.1	33.3
Mcap (Rs cr)	39356	% Upside	18.5	FY11E	34,957.7	11.8	14.5	8.7	21.0	28.9
				FY12E	37714.7	8.3	13.4	7.9	18.8	26.4
M&M					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	MAHMAH	CMP	509	FY09	13,093.7	30.0	17.0	29.2	17.4	9.9
		Target	608	FY10E	18,487.5	33.9	15.9	11.2	31.3	24.8
Mcap (Rs cr)	28419.506	% Upside	19.5	FY11E	21,561.3	34.4	14.8	9.8	24.5	25.2
				FY12E	24428.7	38.7	13.2	8.9	22.3	25.2
Bajaj Auto					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	BAAUTO	CMP	2,111	FY09	8,696.2	44.0	48.0	29.4	38.9	36.8
		Target	1,952	FY10E	11,592.6	103.8	20.3	13.2	67.6	63.6
Mcap (Rs cr)	30,542.7	% Upside	-7.5	FY11E	12,543.0	112.1	18.8	13.0	49.9	53.4
Escorts					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	ESCORT	CMP	180	FY08	1,998.0	1.3	137.7	23.9	-1.6	7.0
		Target	193	FY09	2,162.8	9.9	18.2	11.1	8.5	10.6
		% Upside	7.3	FY10E	2,598.3	13.3	13.6	8.7	8.7	11.9
Mcap (Rs cr)	1699.2			FY11E	3039.6	16.1	11.2	7.1	9.6	13.1
Automotive Axle					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	AUTAXL	CMP	411	FY08	751.9	36.9	11.1	5.8	37.7	40.4
		Target	525	FY09	267.2	3.6	115.5	20.0	3.1	6.3
Mcap (Rs cr)	621.9	% Upside	27.8	FY10E	539.9	24.8	16.6	8.6	19.8	24.7
Balkrishna Industries					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	BALIND	CMP	640	FY09	1175.4	32.7	19.6	8.0	14.5	13.5
		Target	662	FY10E	1,299.2	100.7	6.4	7.5	36.0	26.8
Mcap (Rs cr)	1237.8	% Upside	3.4	FY11E	1,497.2	110.4	5.8	4.5	30.7	28.8
Bharat Forge					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	BHAFOR	CMP	277	FY09	4,774.0	1.1	242.6	15.3	3.6	9.6
		Target	254	FY10E	5,004.0	4.3	65.1	12.4	6.2	17.0
Mcap (Rs cr)	6,165.4	% Upside	-8.4	FY11E	5,416.7	9.8	28.3	9.7	19.6	23.5
JK Tyres					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	JKIND	CMP	199	FY08	4,934.1	4.6	42.8	6.8	3.5	12.5
		Target	202	FY09	3,725.7	39.9	5.0	4.0	25.2	22.5
Mcap (Rs cr)	815.8	% Upside	1.7	FY10E	4,127.0	50.5	3.9	3.4	25.0	22.3
Subros					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	SUBROS	CMP	47	FY09	694.4	2.2	21.5	6.6	7.6	12.2
		Target	61	FY10E	875.6	3.9	12.1	4.5	12.1	16.5
				FY11E	931.0	5.6	8.4	3.3	15.5	20.9
Mcap (Rs cr)	284.0	% Upside	28.2	FY12E	1081.7	6.7	7.0	2.8	16.2	22.6

Source: ICICIdirect.com Research

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